KONECRANES®

Financial Review 2018

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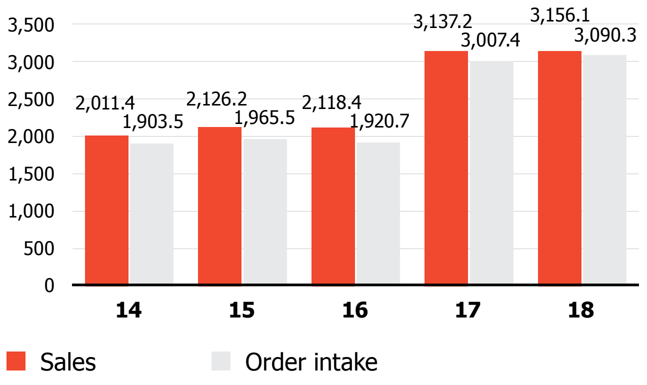
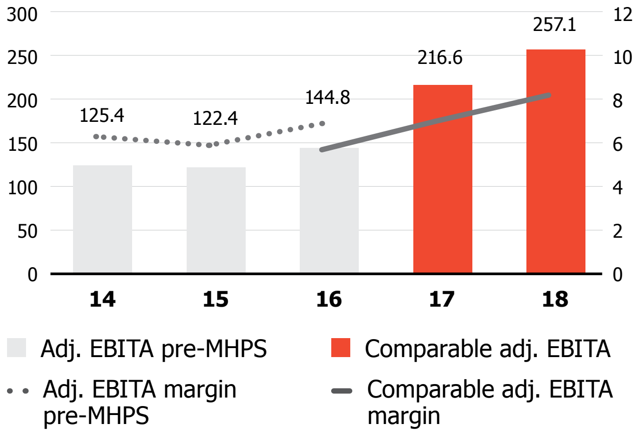
2018 highlights

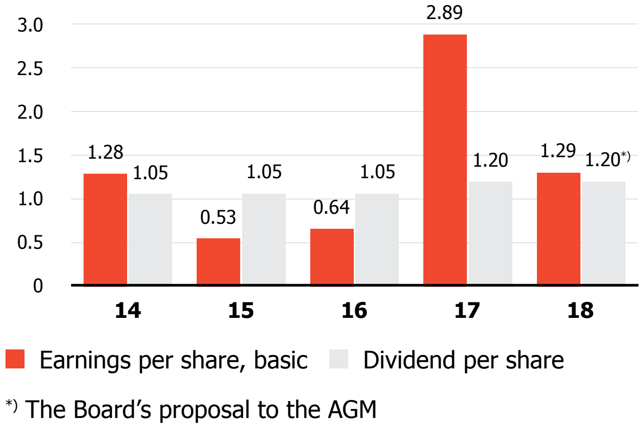
Sales/orders, MEUR



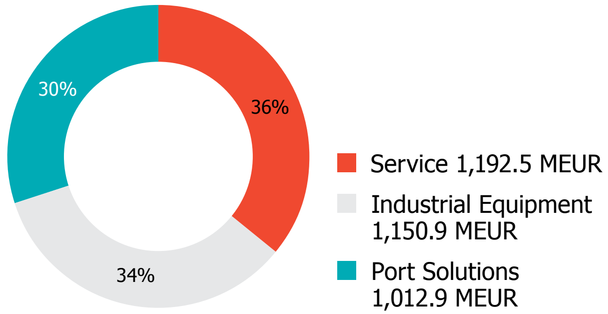
Adjusted EBITA, MEUR/ Adjusted EBITA margin, %



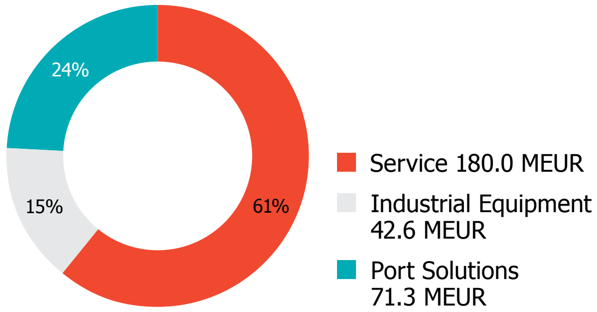
Earnings & dividend per share, EUR



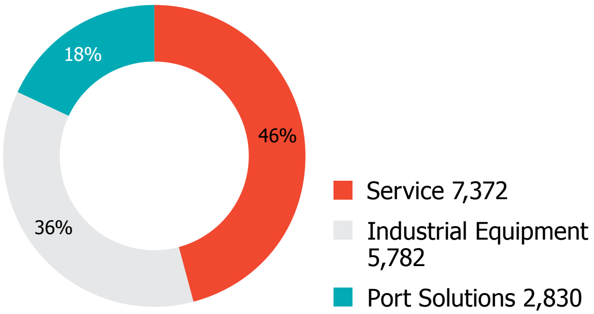
Sales by Business Area, 2018



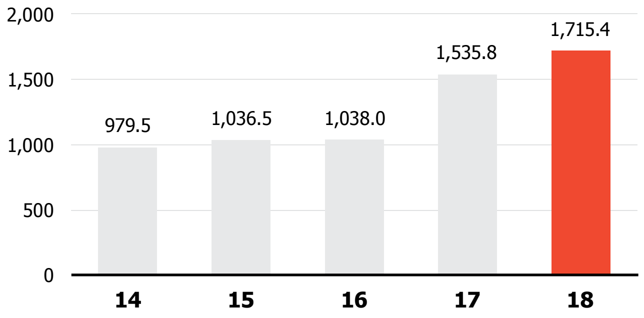
Adjusted EBITA by Business Area, 2018



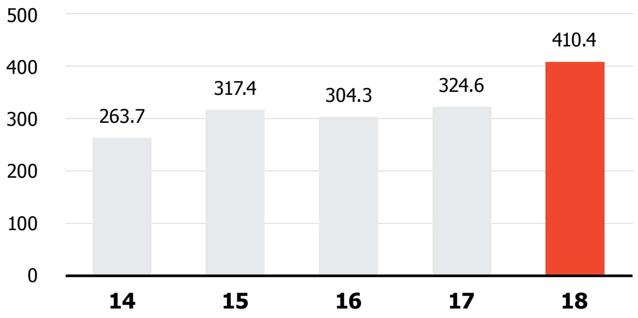
Personnel by Business Area, 2018



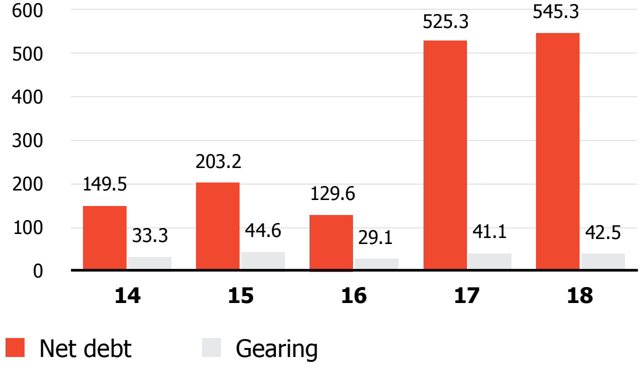
Order book, MEUR



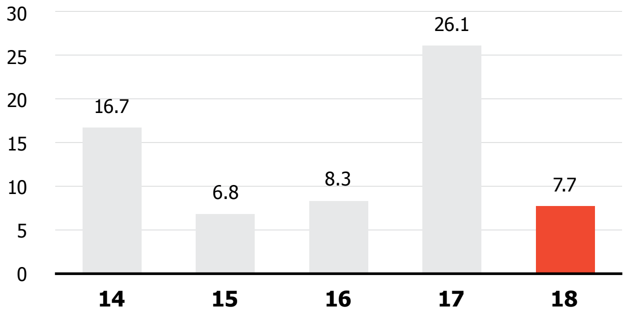
Year-end net working capital, MEUR



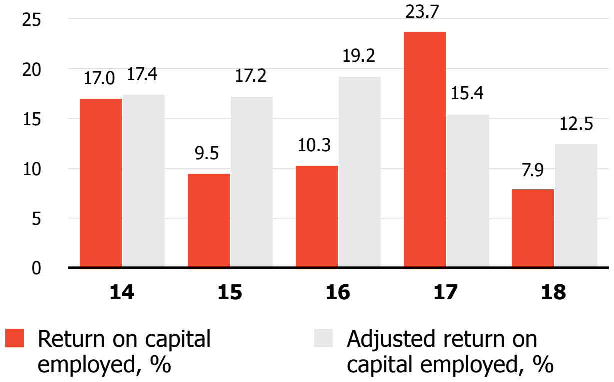
Year-end net debt, MEUR/Gearing, %



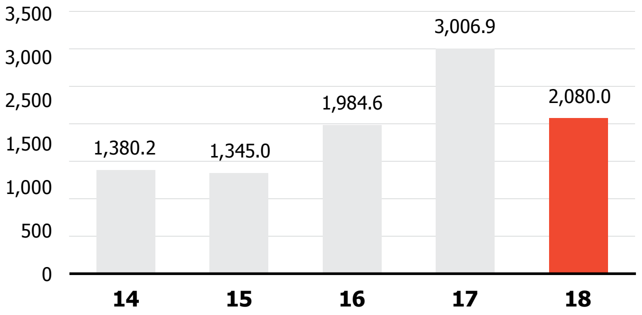
Return on equity, %



ROCE, %/ Adjusted ROCE, %



Year-end market capitalization*), MEUR



*) Excluding treasury shares

Report of the Board of Directors

Konecranes applied the full retrospective approach in IFRS 15 transition, and the numbers for the periods in 2017 have been restated. Please refer to note 4 for more details on the implementation of IFRS 15 and other significant accounting policies.

Note: Unless otherwise stated, the figures in brackets in the sections below refer to the same period in the previous year.

Market review

Activity in the world's manufacturing sector, according to the aggregated JPMorgan Global Manufacturing Purchasing Managers' Index (PMI), continued to grow in 2018, although the pace of growth has slowed down clearly since the beginning of the year. The PMI declined and fell to a 27-month low in December 2018 but remains on the expansion path. Overall, business sentiment has worsened due to growing geopolitical worries.

In the Eurozone, after a long period of rapid growth in economic activity, the pace of expansion slowed down in 2018. Though the manufacturing economy's current run of expansion extends to five-and-a-half years, the growth in December was the weakest since February 2016. At the end of 2018, softness in new orders was behind the slowdown in overall growth. At the end of 2018, slower growth was widespread and the Eurozone's 'big-four' economies posted the lowest manufacturing PMI readings. The Netherlands was the top performer in the Euro area and the rate of expansion improved to its best in three months. The European Union manufacturing capacity utilization decreased slightly during the second half of 2018. Outside the Eurozone, the UK manufacturing sector continued to grow, though the average PMI reading during the fourth quarter in 2018 was the weakest since the third quarter in 2016 (the first quarter after the EU referendum).

In the US, the manufacturing sector's growth slowed down in 2018 compared to the previous year-end. In December 2018, the improvement in operating conditions was the weakest in 15 months, however, clearly above the manufacturing sector's PMI in the Eurozone. Correspondingly, the US manufacturing capacity utilization rate declined in the fourth quarter. Also, business confidence was low at the end of the year; optimism among purchasing managers was at its lowest for over two years in December 2018.

As for the emerging markets, in China, the PMI dropped in 2018 and fell into contraction territory at the end of the year. Russia stabilized at the end of the third quarter after a four-month sequence of contraction and the PMI turned to growth during the last quarter of the year. In Brazil, manufacturing operating conditions improved in the second half of 2018 following a decline during the first half of the year. In India, the growth of the manufacturing sector picked up during the second half, and the nation posted the highest quarterly average PMI since 2012.

After setting an all-time high in early 2018, global container throughput turned to a decline. The index has since increased and reached a new record in October. In January-December 2018, global container throughput increased by approximately 4 percent year-over-year.

Regarding raw material prices, both steel and copper were clearly below the previous year's level at the end of December 2018. The 2018 average EUR/USD exchange rate was approximately 4 percent higher compared to the year-ago period.

Orders received

Orders received in January-December totaled EUR 3,090.3 million (3,007.4), representing an increase of 2.8 percent. On a comparable currency basis, order intake increased 5.2 percent. Orders received increased in all three regions. Service order intake grew 2.1 percent. On a comparable currency basis, order intake in Service increased 5.3 percent. In Industrial Equipment, orders increased 10.8 percent, primarily driven by an increase of EUR 92.4 million in internal orders. EUR 38.3 million of the increase in internal orders was attributable to the harmonization of reporting practices following the MHPS acquisition. On a comparable currency basis, Industrial Equipment external orders grew 5.5 percent. Port Solutions orders increased 3.8 percent. On a comparable currency basis, Ports Solutions order intake grew 5.3 percent.

Order book

The value of the order book at the end of December totaled EUR 1,715.4 million (1,535.8), which was 11.7 percent higher compared to previous year. On a comparable currency basis, the order book increased 11.8 percent. The order book increased 9.3 percent in Service, 12.1 percent in Industrial Equipment and 12.0 percent in Port Solutions.

Orders received and net sales

	10–12/2018	10–12/2017	Change %	Change % at comparable currency rates	1–12/2018	1–12/2017	Change %	Change % at comparable currency rates
Orders received, MEUR	929.8	732.6	26.9	27.3	3,090.3	3,007.4	2.8	5.2
Net sales, MEUR	910.8	909.9	0.1	0.5	3,156.1	3,137.2	0.6	3.0

Sales

In January-December, Group sales totaled EUR 3,156.1 million (3,137.2), representing an increase of 0.6 percent. On a comparable currency basis, sales increased 3.0 percent. Sales increased 1.1 percent in Service. Industrial Equipment sales increased 2.9 percent and Port Solutions sales 3.8 percent. In January-December, the harmonization of reporting practices following the MHPS acquisition had a positive impact of EUR 40.9 million on internal sales in Industrial Equipment.

At the end of December, the regional breakdown of sales, calculated on a rolling 12-month basis, was as follows: EMEA 50 (52), Americas 33 (31) and APAC 16 (17) percent.

Financial result

In January-December, the Group adjusted EBITA increased by EUR 40.4 million to EUR 257.1 million (216.6). The adjusted EBITA margin improved to 8.1 percent (6.9). The adjusted EBITA margin in Service improved to 15.1 percent (13.7), in Industrial Equipment to 3.7 percent (3.1) and in Port Solutions to 7.0 percent (4.6). The improvement in the Group adjusted EBITA was mainly attributable to synergy cost saving measures, improved sales mix, as well as improved gross margin.

In January-December, the consolidated adjusted operating profit increased by EUR 41.5 million to EUR 219.6 million (178.0). The adjusted operating margin improved to 7.0 percent (5.7).

The consolidated operating profit in January-December totaled EUR 166.2 million (318.7). The operating profit includes adjustments of EUR 53.4 million (-140.7), which is comprised of restructuring costs. The previous year's adjustments included a capital gain of EUR 218.4 million from the divestment of STAHL CraneSystems, restructuring costs of EUR 65.6 million, transaction costs of EUR 4.9 million related to the MHPS acquisition and the cost of EUR 7.3 million related to the MHPS purchase price allocated to inventories. The operating margin in Service rose to 13.6 percent (11.8), in Industrial Equipment to 1.3 percent (-0.4) and in Port Solutions to 4.0 percent (1.2).

In January-December, depreciation and impairments totaled EUR 119.9 million (117.0). This included restructuring related impairments of EUR 13.8 million (5.8). The amortization arising from the purchase price allocations for acquisitions represented EUR 37.5 million (38.6) of the depreciation and impairments.

In January-December, the share of the result in associated companies and joint ventures was EUR 4.0 million (3.3).

In January-December, financial income and expenses totaled EUR -31.5 million (-46.0). Net interest expenses accounted for EUR 18.7 million (29.8) of the sum and the remainder was mainly attributable to unrealized exchange rate differences related to the hedging of future cash flows, which are not included in the hedge accounting.

January-December profit before taxes was EUR 138.7 million (276.0).

Income taxes in January-December were EUR -40.4 million (-50.6). The Group's effective tax rate was 29.1 percent (18.3). The effective tax rate increase results mainly from the restructuring cost growth, as a large portion of the costs cannot be deducted in taxation.

January-December net profit was EUR 98.3 million (225.4).

In January-December, the basic earnings per share were EUR 1.29 (2.89) and the diluted earnings per share were EUR 1.29 (2.89).

On a rolling 12-month basis, the return on capital employed was 7.9 percent (23.7) and the return on equity 7.7 percent (26.1). The adjusted return on capital employed was 12.5 percent (15.4).

Balance sheet

As of the end of December, the consolidated balance sheet amounted to EUR 3,567.0 million (3,562.9). The total equity at the end of the reporting period was EUR 1,284.1 million (1,278.9). On December 31, the total equity attributable to the equity holders of the parent company was EUR 1,265.8 million (1,256.4) or EUR 16.06 per share (15.95).

Net working capital at the end of December totaled EUR 410.4 million (324.6). The increase results mainly from growth in inventory. Sequentially, net working capital decreased by EUR 16.5 million. The decrease in net working capital resulted mainly from lower accounts receivable in Business Area Industrial Equipment.

Cash flow and financing

Net cash from operating activities in January-December was EUR 109.2 million (249.4). Cash flow before financing activities was EUR 74.2 million (-292.6), which included a cash inflow of EUR 1.1 million (213.4) related to divestments and a cash outflow of EUR 38.3 million (28.7) related to capital expenditure. The previous year's net cash from operating activities included a cash outflow of EUR 733.2 million related to acquisitions.

At the end of December, interest-bearing net debt was EUR 545.3 million (525.3). The equity to assets ratio was 39.8 percent (39.2) and the gearing 42.5 percent (41.1).

At the end of December, cash and cash equivalents amounted to EUR 230.5 million (233.1). None of the Group's committed EUR 400 million back-up financing facility was in use at the end of the period.

In April 2018, Konecranes paid dividends, amounting to EUR 94.6 million or EUR 1.20 per share, to its shareholders.

Capital expenditure

Capital expenditure in January-December, excluding acquisitions and joint arrangements, amounted to EUR 35.4 million (35.7). This amount consisted mainly of investments in machinery and equipment, property and information technology.

Acquisitions and divestments

In January-December, the capital expenditure for acquisitions and joint arrangements was EUR 0.0 million (1,482.0).

In January 2018, Konecranes divested its Machine Tool Service business in the USA. Konecranes received cash proceeds of EUR 1.1 million from the transaction and did not record any loss or profit from this disposal.

Personnel

In January-December, the Group had an average of 16,247 employees (15,519). On December 31, the number of personnel was 16,077 (16,371). During January-December, the Group's personnel decreased by 294 people net.

At the end of December, the number of personnel by Business Area was as follows: Service 7,372 employees (7,206), Industrial Equipment 5,782 employees (6,024), Port Solutions 2,830 employees (3,067) and Group staff 93 (74). The increase in Group staff was primarily due to a change in allocations from the beginning of 2018, where 20 employees were allocated to Group staff instead of Business Areas.

The Group had 10,027 employees (9,920) working in EMEA, 3,172 (3,205) in the Americas and 2,878 (3,246) in APAC.

Business areas

Service

In January-December, orders received totaled EUR 986.5 million (966.3), corresponding to an increase of 2.1 percent. On a comparable currency basis, orders received increased 5.3 percent.

The order book increased 9.3 percent to EUR 214.3 million (196.0). On a comparable currency basis, the order book increased 8.0 percent.

Sales increased 1.1 percent to EUR 1,192.5 million (1,179.5). On a comparable currency basis, sales increased 4.2 percent. Sales of parts outperformed field service sales. Reported sales increased in EMEA and APAC but fell in the Americas. On a comparable currency basis, sales increased in all three regions.

The adjusted EBITA was EUR 180.0 million (161.3) and the adjusted EBITA margin was 15.1 percent (13.7). The improvement in the adjusted EBITA margin was mainly attributable to synergy cost savings and a more favorable sales mix. The operating profit was EUR 162.8 million (139.7) and the operating margin 13.6 percent (11.8).

The total number of equipment included in the service agreement base increased 0.3 percent to 614,542 (612,754) at the end of December. Year-on-year, the annual value of the agreement base increased 5.4 percent to EUR 243.9 million (231.4). On a comparable currency basis, the annual value of the agreement base increased 5.1 percent. Sequentially, the annual value of the agreement base increased 1.0 percent on a reported basis and 0.8 percent on a comparable currency basis.

Service

	10–12/2018	10–12/2017	Change%	Change% at comparable currency rates	1–12/2018	1–12/2017	Change%	Change% at comparable currency rates
Orders received, MEUR	249.3	236.8	5.3	4.7	986.5	966.3	2.1	5.3
Order book, MEUR	214.3	196.0	9.3	8.0	214.3	196.0	9.3	8.0
Agreement base value, MEUR	243.9	231.4	5.4	5.1	243.9	231.4	5.4	5.1
Net sales, MEUR	336.4	321.4	4.7	4.4	1,192.5	1,179.5	1.1	4.2
Adjusted EBITA, MEUR[1]	55.8	48.7	14.5		180.0	161.3	11.6	
Adjusted EBITA,%[1]	16.6%	15.2%			15.1%	13.7%		
Purchase price allocation amortization, MEUR	-3.1	-3.1	-0.1		-12.5	-12.9	-3.4	
Adjustments,MEUR	-0.9	-0.5			-4.8	-8.7		
Operating profit (EBIT), MEUR	51.8	45.1	14.9		162.8	139.7	16.5	
Operating profit (EBIT),%	15.4%	14.0%			13.6%	11.8%		
Personnel at the end of period	7,372	7,206	2.3		7,372	7,206	2.3	

[1] Excluding adjustments and purchase price allocation amortization.

Industrial equipment

In January-December orders received totaled EUR 1,248.9 million (1,127.3), corresponding to an increase of 10.8 percent. On a comparable currency basis, orders received increased 13.6 percent. External orders received increased 2.8 percent on a reported basis and 5.5 percent on a comparable currency basis. Order intake increased in all business units. The process crane order intake growth was mainly driven by a single large order. In 2018, the internal order growth had a EUR 92.4 million positive impact on the Industrial Equipment order growth, EUR 38.3 million of which was attributable to the harmonization of reporting practices following the MHPS acquisition.

The order book increased 12.1 percent to EUR 590.6 million (526.9). On a comparable currency basis, the order book increased 12.2 percent.

Sales increased 2.9 percent to EUR 1,150.9 million (1,118.2). On a comparable currency basis, sales increased 5.3 percent. External sales decreased 2.5 percent on a reported basis and 0.1 percent on a comparable currency basis. The decrease in external sales was offset by an increase in internal sales, EUR 40.9 million of which was attributable to the harmonization of reporting practices following the MHPS acquisition.

The adjusted EBITA was EUR 42.6 million (34.6) and the adjusted EBITA margin 3.7 percent (3.1). The improvement in the adjusted EBITA margin was mainly attributable to synergy cost savings. The operating profit was EUR 15.1 million (-4.0) and the operating margin 1.3 percent (-0.4).

Industrial Equipment

	10–12/2018	10–12/2017	Change%	Change% at comparable currency rates	1–12/2018	1–12/2017	Change%	Change% at comparable currency rates
Orders received, MEUR	343.9	285.3	20.6	21.4	1,248.9	1,127.3	10.8	13.6
of which external, MEUR	298.3	255.4	16.8	17.7	1,065.5	1,036.3	2.8	5.5
Order book, MEUR	590.6	526.9	12.1	12.2	590.6	526.9	12.1	12.2
Net sales, MEUR	325.6	312.9	4.0	4.5	1,150.9	1,118.2	2.9	5.3
of which external, MEUR	284.7	290.8	-2.1	-1.6	1,009.2	1,035.0	-2.5	-0.1
Adjusted EBITA, MEUR[1]	14.8	17.2	-13.9		42.6	34.6	22.9	
Adjusted EBITA,%[1]	4.5%	5.5%			3.7%	3.1%		
Purchase price allocation amortization, MEUR	-3.6	-3.6	1.5		-14.5	-14.7	-1.4	
Adjustments,MEUR	0.2	-8.7			-12.9	-23.8		
Operating profit (EBIT), MEUR	11.4	4.9	130.9		15.1	-4.0	480.8	
Operating profit (EBIT),%	3.5%	1.6%			1.3%	-0.4%		
Personnel at the end of period	5,782	6,024	-4.0		5,782	6,024	-4.0	

[1] Excluding adjustments and purchase price allocation amortization.

Port solutions

In January-December, orders received totaled EUR 1,096.0 million (1,056.2), corresponding to an increase of 3.8 percent. On a comparable currency basis, orders received increased 5.3 percent.

The order book increased 12.0 percent to EUR 910.5 million (812.9). On a comparable currency basis, the order book increased 12.4 percent.

Sales increased 3.8 percent to EUR 1,012.9 million (975.7). On a comparable currency basis, sales increased 5.4 percent.

The adjusted EBITA was EUR 71.3 million (44.8) and the adjusted EBITA margin 7.0 percent (4.6). The improvement in the adjusted EBITA margin was mainly attributable to improved gross margin, benefitting, for instance, from project mix and synergy cost savings.

Operating profit was EUR 40.0 million (11.7) and the operating margin 4.0 percent (1.2).

Group overheads

In January-December, the result effect of adjusted unallocated Group overhead costs and eliminations was EUR -36.8 million (-24.0), representing -1.2 percent of sales (-0.8). The increase was primarily due to the change in internal eliminations and the alignment of accounting practices following the MHPS acquisition, along with a change in allocations from the beginning of 2018, where approximately EUR 4 million of cost on an annual basis is reclassified as unallocated Group overheads instead of Business Areas.

In January-December, the result effect of unallocated Group overhead costs and eliminations was EUR -51.7 million (171.3), representing -1.6 percent of sales (5.5). These included restructuring costs of EUR 14.8 million (18.2). The previous year's unallocated Group overhead costs and eliminations included also a capital gain of EUR 218.4 million from the divestment of STAHL CraneSystems, purchase price allocation of EUR 7.3 million and transaction costs of EUR 4.9 million, both related to the MHPS acquisition.

Administration

Decisions of the Annual General Meeting

The Annual General Meeting of Konecranes Plc was held on Tuesday March 27, 2018. The meeting approved the Company's annual accounts for the fiscal year 2017, discharged the members of the Board of Directors and CEO from liability, and approved all proposals made by the Board of Directors and its committees to the AGM. The AGM approved the Board's proposal that a dividend of EUR 1.20 per share is paid from the distributable assets of the parent Company.

The AGM confirmed the annual remuneration payable to the members of the Board for the term until the closing of the Annual General Meeting in 2019 as follows: Chairman of the Board EUR 140,000, Vice Chairman of the Board EUR 100,000, and other Board Members EUR 70,000. In case the term of office of a Board member ends before the closing of the Annual General Meeting in 2019, he or she is entitled to the prorated amount of the annual remuneration calculated on the basis of his or her actual term in office.

Port solutions

	10–12/2018	10–12/2017	Change %	Change % at comparable currency rates	1–12/2018	1–12/2017	Change %	Change % at comparable currency rates
Orders received, MEUR	399.1	255.3	56.3	57.4	1,096.0	1,056.2	3.8	5.3
Order book, MEUR	910.5	812.9	12.0	12.4	910.5	812.9	12.0	12.4
Net sales, MEUR	306.4	312.9	-2.1	-1.1	1,012.9	975.7	3.8	5.4
of which service, MEUR	45.7	41.8	9.3	9.5	178.3	161.3	10.6	12.9
Adjusted EBITA, MEUR[1)]	25.3	16.7	51.9		71.3	44.8	59.4	
Adjusted EBITA, %[1)]	8.3%	5.3%			7.0%	4.6%		
Purchase price allocation amortization, MEUR	-2.6	-2.6	2.0		-10.4	-10.9	-4.3	
Adjustments,MEUR	-19.7	-4.1			-20.9	-22.2		
Operating profit (EBIT), MEUR	3.0	10.0	-70.0		40.0	11.7	243.2	
Operating profit (EBIT), %	1.0%	3.2%			4.0%	1.2%		
Personnel at the end of period	2,830	3,067	-7.7		2,830	3,067	-7.7	

1) Excluding adjustments and purchase price allocation amortization.

In addition, the Chairman of the Board, the Vice Chairman of the Board, and other Board members are entitled to a compensation of EUR 1,500 per attended Board committee meeting. The Chairman of the Audit Committee of the Board of Directors is, however, entitled to a compensation of EUR 3,000 per attended Audit Committee meeting. No remuneration will be paid to Board members employed by the Company. Travel expenses will be compensated against receipts.

The AGM approved the proposal of the Nomination Committee that the number of members of the Board of Directors is eight (8). Mr. Ole Johansson, Ms. Janina Kugel, Mr. Bertel Langenskiöld, Mr. Ulf Liljedahl and Mr. Christoph Vitzthum were re-elected for a term of office ending at the closing of the Annual General Meeting in 2019, and Mr. Per Vegard Nerseth, Mr. Anders Nielsen and Ms. Päivi Rekonen were elected new Board members for the same term of office.

The AGM confirmed that Ernst & Young Oy continues as the Company's auditor for the year ending on December 31, 2018.

The AGM approved the proposal of the Board of Directors to amend the Articles of Association of the Company in their entirety as proposed to the AGM.

The AGM authorized the Board of Directors to decide on the repurchase of the Company's own and/or on the acceptance as pledge of the Company's own shares. The number of own shares to be repurchased and/or accepted as pledge based on this authorization shall not exceed 7,500,000 shares in total, which corresponds to approximately 9.5 percent of all of the shares in the Company. However, the Company together with its subsidiaries cannot at any moment own and/or hold as pledge more than 10 percent of all the shares in the Company. Only the unrestricted equity of the Company can be used to repurchase own shares on the basis of the authorization. Own shares can be repurchased at a price formed in public trading on the date of the repurchase or otherwise at a price formed on the market. The Board of Directors decides how own shares will be repurchased and/or accepted as pledge. Own shares can be repurchased using, inter alia, derivatives. Own shares can be repurchased otherwise than in proportion to the shareholdings of the shareholders (directed repurchase). Own shares can be repurchased and/or accepted as pledge to limit the dilutive effects of share issues carried out in connection with possible acquisitions, to develop the Company's capital structure, to be transferred for financing or realization of possible acquisitions, investments or other arrangements belonging to the Company's business, to pay remuneration to Board members, to be used in incentive arrangements or to be cancelled, provided that the repurchase and/or acceptance as pledge is in the interest of the Company and its shareholders. The authorization is effective until the end of the next Annual General Meeting, however no longer than until 26 September 2019.

The AGM authorized the Board of Directors to decide on the issuance of shares, as well as the issuance of special rights entitling to shares referred to in chapter 10, section 1 of the Finnish Companies Act. The number of shares to be issued based on this authorization shall not exceed 7,500,000 shares, which corresponds to approximately 9.5 percent of all of the shares in the Company. The Board of Directors decides on all the conditions of the issuance of shares and of special rights entitling to shares. The issuance of shares and of special rights entitling to shares may be carried out in deviation from the shareholders' pre-emptive rights (directed issue). The authorization can also be used for incentive arrangements, however, not more than 1,000,000 shares in total together with the authorization in the next item. The authorization is effective until the end of the next Annual General Meeting, however no longer than until September 26, 2019. However, the authorization for incentive arrangements is valid until March 26, 2023. This authorization revokes the authorization for incentive arrangements given by the Annual General Meeting 2017.

The AGM authorized the Board of Directors to decide on the transfer of the Company's own shares. The authorization is limited to a maximum of 7,500,000 shares, which corresponds to approximately 9.5 percent of all the shares in the Company. The Board of Directors decides on all the conditions of the transfer of own shares. The transfer of shares may be carried out in deviation from the shareholders' pre-emptive rights (directed issue). The Board of Directors can also use this authorization to grant special rights concerning the Company's own shares, referred to in Chapter 10 of the Companies Act. The authorization can also be used for incentive arrangements, however, not more than 1,000,000 shares in total together with the authorization in the previous item. This authorization is effective until the next Annual General Meeting of Shareholders, however no longer than until September 26, 2019. However, the authorization for incentive arrangements is valid until March 26, 2023. This authorization revokes the authorization for incentive arrangements given by the Annual General Meeting 2017.

The AGM authorized the Board of Directors to decide on the issue of new shares or on the transfer of own shares held by the Company to such participants of an Employee Share Savings Plan who, according to the terms and conditions of the Plan, are entitled to receive free shares, as well as to decide on the share issue without payment also to the Company itself. The authorization includes a right, within the scope of this Plan, to transfer own shares currently held by the Company, which have earlier been limited to other purposes than incentive plans. The number of new shares to be issued or own shares held by the Company to be transferred may in the aggregate amount to a maximum total of 500,000 shares, which corresponds to approximately 0.6 percent of all of the Company's shares. The Board of Directors is entitled to decide on other matters concerning the share issue. The authorization concerning the share issue is valid until March 26, 2023. This authorization is in addition to the authorizations in the previous items. This authorization replaces the authorization for the Share Savings Plan given by the Annual General Meeting 2017.

Board of Directors' organizing meeting

In the first meeting of the Board of Directors of Konecranes Plc after the Annual General Meeting the Board of Directors elected Mr. Christoph Vitzthum Chairman of the Board and Mr. Ole Johansson Vice Chairman of the Board.

In accordance with the previous practice, the Board of Directors has an Audit Committee, a Nomination Committee and a Human Resources Committee.

Ulf Liljedahl was elected Chairman of the Audit Committee, and Ole Johansson and Päivi Rekonen as Committee members. Bertel Langenskiöld was elected Chairman of the Human Resources Committee, and Janina Kugel and Christoph Vitzthum as Committee members. Christoph Vitzthum was elected Chairman of the Nomination Committee, and Ole Johansson and Ulf Liljedahl as Committee members.

Ms. Janina Kugel, Mr. Ulf Liljedahl, Mr. Per Vegard Nerseth, Mr. Anders Nielsen, Ms. Päivi Rekonen and Mr. Christoph Vitzthum, were deemed to be independent of the company and any significant shareholders. While Mr. Ole Johansson and Mr. Bertel Langenskiöld were deemed to be independent of the company, they were deemed to be dependent of a significant shareholder of the company based on their positions as the current Chairman of the Board of Directors and previous Managing Director of Hartwall Capital Oy Ab, respectively.

Changes in the Group Executive Board

On April 13, 2018, Konecranes announced that Susanna Schneeberger, Executive Vice President and Head of Strategy, was to leave Konecranes to pursue career opportunities outside the company. She left Konecranes on June 30, 2018.

On June 7, 2018 Konecranes announced that Minna Aila (b. 1966) had been appointed Executive Vice President, Marketing and Corporate Affairs and Member of the Group Executive Board. Ms. Aila started in her new position on September 1, 2018. She is responsible for marketing, communications, corporate responsibility, government relations and safety, and reports to Panu Routila, President and CEO.

Since September 1, 2018, the Group Executive Board consists of the following members:

- Panu Routila, President and CEO
- Teo Ottola, CFO, Deputy CEO
- Fabio Fiorino, Executive Vice President, Business Area Service
- Mikko Uhari, Executive Vice President, Business Area Industrial Equipment
- Mika Mahlberg, Executive Vice President, Business Area Port Solutions
- Juha Pankakoski, Executive Vice President, Technologies
- Minna Aila, Executive Vice President, Marketing and Corporate Affairs
- Timo Leskinen, Senior Vice President, Human Resources
- Sirpa Poitsalo, Senior Vice President, General Counsel

Share capital and shares

On December 31, 2018 the company's registered share capital totaled EUR 30.1 million. On December 31, 2018, the number of shares including treasury shares totaled 78,921,906.

Treasury shares

On December 31, 2018, Konecranes Plc was in possession of 105,403 treasury shares, which corresponds to 0.1 percent of the total number of shares and which had on that date a market value of EUR 2.8 million.

On February 28, 2018, 17,995 treasury shares were conveyed without consideration to the employees as a reward payment for the Savings Period 2014–2015 of the Konecranes Employee Share Savings Plan.

On March 8, 2018, 49,363 treasury shares were conveyed without consideration to key employees as a reward payment for the performance period 2015–2017 of the Konecranes Performance Share Plan 2015.

On December 17, 2018, 7,000 Konecranes shares were returned free of consideration to the company according to the terms and conditions of Performance Share Plan 2016. Originally, the shares had been conveyed to the participants in the 2016 performance period of the program.

Performance share plan criterion 2018–2020

On May 11, 2018, Konecranes announced that the Board of Directors had resolved that the performance criterion for the discretionary period 2018–2020 is the cumulative adjusted Earnings per Share (EPS) of the financial years 2018–2020. Adjustments to the EPS include defined restructuring costs, purchase price allocation amortization and certain other unusual items.

The target group of the plan consists of a maximum of 280 people during the discretionary period 2018–2020. The rewards to be paid on the basis of the discretionary period correspond to the value of a maximum total of 710,000 Konecranes Plc shares. If the target determined by the Board of Directors is attained, the reward payout may be a half of the maximum reward. The maximum reward payout requires that the target is clearly exceeded.

The Annual General Meeting of Shareholders held on March 27, 2018 authorized the Board of Directors to decide on the issue of shares or the transfer of own shares needed for the implementation of the performance share plan.

The launch and essential terms and conditions of the performance share plan have been published in a stock exchange release on June 16, 2017.

Employee share savings plan

On February 8, 2018, Konecranes announced that the Board of Directors has decided to launch a new Plan Period relating to the Employee Share Savings Plan. The new Plan Period began on July 1, 2018 and will end on June 30, 2019. Each participant will receive one free matching share for every two acquired savings shares. Matching shares will be delivered to a participant if the participant holds the acquired shares from the Plan Period until the end of the designated holding period, February 15, 2022, and if his or her employment has not ended before this date for reasons attributable to the employee. The total amount of all savings of the commencing plan period may not exceed EUR 8.5 million. The terms and conditions of the Plan Period 2018–2019 are unchanged from the previous Plan Periods. Shares will be acquired with the accrued savings at the market price quarterly, after the publication dates of the Konecranes interim results, commencing in October 2018.

Market capitalization and trading volume

The closing price for the Konecranes shares on the Nasdaq Helsinki on December 31, 2018 was EUR 26.39. The volume-weighted average share price in January-December 2018 was EUR 33.56, the highest price being EUR 42.43 in January and the lowest EUR 25.05 in October. In January–December, the trading volume on the Nasdaq Helsinki totaled 66.5 million, corresponding to a turnover of approximately EUR 2,231.1 million. The average daily trading volume was 265,873 shares representing an average daily turnover of EUR 8.8 million.

In addition, according to Fidessa, approximately 107.9 million shares were traded on other trading venues (e.g. multilateral trading facilities and bilateral OTC trades) in January-December 2018.

On December 31, 2018, the total market capitalization of Konecranes Plc was EUR 2,082.7 million including treasury shares. The market capitalization was EUR 2,080.0 million excluding treasury shares.

Notifications of major shareholdings

In January-December 2018, Konecranes received the following notifications of major shareholdings.

Date	Shareholder	Threshold	% of shares and voting rights	% of shares and voting rights through financial instrument	Total, %	Total, shares
January 2, 2018	BlackRock, Inc.	Above 15%	13.60	1.39	15.00	11,838,477
January 4, 2018	BlackRock, Inc.	Below 15%	13.60	1.33	14.94	11,792,766
January 9, 2018	BlackRock, Inc.	Above 15%	13.78	1.24	15.02	11,858,361
January 10, 2018	BlackRock, Inc.	Below 15%	13.82	1.07	14.90	11,764,689
January 16, 2018	BlackRock, Inc.[1)]	Below 10%	12.95	1.26	14.21	11,222,451
January 22, 2018	BlackRock, Inc.[2)]	Below 10%	11.84	1.24	13.08	10,330,572
February 9, 2018	Solidium Oy	Above 5%	5.05	0	5.05	3,984,863
February 11, 2018	HC Holding Oy Ab	Above 10%	10.01	0	10.01	7,901,238
March 19, 2018	BlackRock, Inc.	Below 10%	9.79	0.94	10.74	8,477,795
March 28, 2018	BlackRock, Inc.[3)]	Below 5%	8.05	2.50	10.56	8,334,657
March 29, 2018	BlackRock, Inc.[4)]	Above 5%	8.24	2.32	10.56	8,340,614
April 19, 2018	BlackRock, Inc.	Above 10%	10.48	0.02	10.51	8,275,603
April 30, 2018	BlackRock, Inc.	Below 10%	9.96	0.79	10.76	8,494,172
June 12, 2018	BlackRock, Inc.	Below 10%	8.42	1.05	9.48	7,486,989
June 25, 2018	BlackRock, Inc.[5)]	Below 5%	7.91	1.63	9.54	7,535,099
November 19, 2018	BlackRock, Inc.[6)]	Below 5%	5.62	2.09	7.72	6,094,331

[1)] The disclosure obligation arose due to holding in Shares and Voting rights for BlackRock Investment Management (UK) Limited going below 10%.
[2)] The disclosure obligation arose due to total holding in Shares and Voting rights for BlackRock Investment Management (UK) Limited going below 10%.
[3)] The disclosure obligation arose due to holding in Shares and Voting rights for BlackRock Investment Management (UK) Limited going below 5%.
[4)] The disclosure obligation arose due to holding in Shares and Voting rights for BlackRock Investment Management (UK) Limited going above 5%.
[5)] The disclosure obligation arose due to holding in Shares and Voting rights for BlackRock Investment Management (UK) Limited going below 5%.
[6)] The disclosure obligation arose due to total holding in Shares and Voting rights for BlackRock Investment Management (UK) Limited going below 5%.

Research and development

In 2018, Konecranes' research and product development expenditure totaled EUR 42.1 (36.0) million, representing 1.3 (1.1) percent of sales. R&D expenditure includes product development projects aimed at improving the quality and cost efficiency of both products and services.

In 2018, Konecranes begun to define its new digital strategy and kicked off several R&D projects to identify how applicable emerging technologies are impacting the material handling industry.

Konecranes' internal digitalization and the MHPS integration proceeded as planned, and the majority of business units now use global IT systems. Common oneKONECRANES processes and systems provide Konecranes with a 360° view on customers, real-time visibility on demand and supply, higher scalability and lower transactional costs.

Konecranes continued to participate in the definition of the new machine-to-machine communication interface standard, based on OPC UA for industrial cranes, in accordance with the European Material Handling Federation (FEM) and German Machine Manufacturer Association (VDMA). This standard will guide product design and enable Konecranes to benefit from an application ecosystem which is likely to develop once the standardized data models and interfaces are put into effect.

In 2018, Konecranes launched a REACH Program for start-ups and continued its partnership with Maria 01, the Nordics' leading start-up hub. In 2018, the REACH Program looked for new ways to apply AI and analytics in field service, digitalize ports, make container logistics smarter, and improve human-machine interaction.

Also, in 2018 Konecranes launched a new Automated Rubber Tyred Gantry (ARTG) system version 2.0, which is instrumental in driving the evolution of RTG-based container terminals to fully automated operation. To support this objective, Konecranes also continued research with 5G and NB-IoT.

For better ecoefficiency, Konecranes launched ECOLIFTING for lift trucks, a concept that comprises three driveline solutions: Power Drive, offering up to 15% fuel savings; Flow Drive, with up to 25 percent fuel savings; and the pioneering Hybrid Drive, offering up to 40 percent fuel savings.

Konecranes continued to pilot microservices and container technologies-based product design in 2018, enabling product enhancements, such as software updates, for increased efficiency, safety and productivity after the equipment is delivered to customers.

In 2018, Agilon®, the multi-award-winning material handling solution, was taken into use in both indoor and outdoor retail settings as Pick & Go stations to replace parcel lockers.

Statement of non-financial information

Konecranes discloses the Non-financial information as part of its Board of Directors report. This disclosure is prepared in accordance with Accounting Act amendment 1376/2016 which is based on the EU Directive 2014/95/EU on the disclosure of Non-financial and diversity information. Konecranes reports the disclosed information annually in accordance with the international reporting framework Global Reporting Initiative (GRI). More information on the topics can be found in the Sustainability Supplement that is part of the Annual Report. In 2017 Konecranes provided the statement of Non-financial information as a separate report.

The most essential Non-financial topics for Konecranes are the safety of employees and products, responsible business practices including working against corruption, respecting human rights and engaging employees, providing eco-efficient solutions for customers and enforcing a sustainable supply chain. Konecranes is a signatory of the UN Global Compact and is thereby committed to its principles with respect to human rights, labor, the environment and anti-corruption, and it reports annually in accordance with the Global Reporting Initiative (GRI).

Business model and value creation

Through our three complementary Business Areas, we seek to respond to the majority of our customers' lifti¬ng needs. Our business aims to improve our customers' safety and deliver optimal productivity by offering a wide range of eco-efficient products and service solutions that promote circular economy. Safety is an integral part of our business and prioritizing it in all areas of our operations brings us a competitive advantage. By means of digitalization, we offer advanced tools to improve the productivity, serviceability and lifetime of the equipment.

Taking the megatrends affecting our industry and their relationship with our strategic focus areas into account allows us to highlight the areas where Konecranes brings value to our stakeholders and society at large. We focus on creating more value from our current assets through greater efficiency in our operations, as well as on increasing the amount of value that our customers obtain from our products and services. Our talented, inspired and engaged employees help our customers enhance safety and productivity every day. In our view, varied skill sets are a key driver of creativity and value creation, and diversity and inclusivity result in teams that deliver better results. Fostering diversity encourages innovation, exceptional organizational performance and, most importantly, outstanding customer service.

Konecranes' position as a preferred partner creates financial stability not only for our company, but for our whole value chain. Sustainable business practices and risk management are crucial for creating longer term shareholder value. To remain a key player within local communities as well as an attractive employer, we want to make a positive impact on the societies where we operate. This is done by providing jobs and income for employees, by boosting local economies as an employer, provider and buyer of services and goods, as well as by being a significant taxpayer in many countries where we operate. We also support non-profit organizations.

In 2018, taxes paid and remitted by Konecranes were an important source of income to public administrations. A total of EUR 514 million (594) in taxes and other compulsory tax-like payments were paid and collected in countries where the Group operates implying an effective tax rate of 29.1 percent (18.4). A total of EUR 239 million (209) was paid (taxes borne) directly by the group itself, while EUR 275 million (385) was collected (taxes collected) on behalf of governments. Konecranes is a compliant taxpayer in each country where it operates. The company strives for transparency in its tax practices and does not practice tax planning that would aim at artificially decreasing the Group's taxable income.

Our products can be remanufactured and modernized to extend their lifecycles and can be reused and then finally recycled at the end of their lifespans. In addition, our conjoined product offering features innovative power sources such as hybrid technology and other energy saving solutions, including regenerative braking. Above all, we firmly believe that we can deliver the highest lifecycle value to our customers through Lifecycle Care – our comprehensive and systematic approach to service that offers the right maintenance at the right time. By providing our customers with solutions that enable smooth, efficient and responsible material handling, we secure our position as a close and favored partner.

We see particular advantages for Konecranes in circular economy business models. Significant savings can be obtained through renting, repairing, modernizing, reusing, and recycling our products. Modernizations and retrofits save a great deal of resources by reducing the environmental impact of product lifecycles, saving raw materials and enhancing equipment energy efficiency and performance. Additionally, modernization increases safety, productivity, reliability and usability while decreasing the need for repairs and unscheduled maintenance. Circular economy business models also help us raise our resource and energy efficiency while reducing our customers' environmental footprints. In order to gain maximum circular value from our products, we focus on providing maintenance to keep our products in service longer, extending product lifecycles and utilizing the Design for Environment concept (DfE), including the reuse and recyclability of products, in product development.

To ensure that we continue to deliver value, we must keep engaging and developing the best talent, implementing smart technology in our product and service offering, innovating new business models, developing our product design and reliability, and maintaining a deep understanding of our customers' present and future material handling needs.

Responsible business conduct

Konecranes' Code of Conduct and Corporate Governance Framework guide the everyday activities of the company by clearly describing our internal standards and ethical values as well as our legal obligations. The Code of Conduct is complemented by Group-wide policies, including those on Quality, the Environment, Health and Safety; Respect in the Workplace, which focuses on equal opportunities, fair employment practices, anti-discrimination; our Diversity and Inclusion policy; as well as internal guidance related to anti-corruption, reporting ethical and compliance concerns, and sourcing and purchasing.

In 2018 we rolled out our updated Code of Conduct and Anti-Corruption policy and a new Supplier Code of Conduct was introduced. In connection with the communication of new policies, we organized numerous training and awareness sessions for more than 5,500 employees on compliance and ethics during 2018. As a result of the renewal of our Code of Conduct and Anti-Corruption policy we will also renew our Code of Conduct training, which will be rolled out in 2019.

We want to promote a healthy speak-up culture where people feel safe reporting compliance and ethical concerns without a fear of retaliation. In 2018 we also implemented a new Whistleblowing Channel giving our employees an additional way to raise concerns relating to compliance with laws and ethical conduct.

We also established an executive level Compliance & Ethics Committee to oversee the implementation and development of our compliance & ethics program managed by the Head of Compliance & Ethics.

Anti-corruption and bribery prevention

Our Anti-Corruption policy and Code of Conduct demonstrate our commitment to work against corruption in all forms, including extortion and bribery. They define the level of ethical conduct we seek to uphold, and which supports our long-term competitiveness in the global markets. In 2018 we rolled out the updated Code of Conduct and Anti-Corruption policy, making them more comprehensive and specific than before.

Our Anti-corruption policy has compliance protocols and guidelines in place to detect risks, embedding our zero-tolerance approach towards corrupt practices in our monitoring and follow-up processes. Several actions and processes are set up to mitigate corruption and fraud risks. Anti-corruption trainings were organized during 2018. To encourage our employees to speak up, we offer multiple ways to raise concerns, including a Whistleblowing Channel that was launched in 2018.

We have established a risk-based Know-Your-Counterparty process which identifies the risks of doing business with third parties by studying their ownership, activity and role. The process includes anti-bribery, sanctions and other due diligence checks according to the level of risk identified.

Environmental performance

We take our responsibility as well as our opportunity to influence environmental matters seriously, especially with regard to resource use and mitigating the effects of climate change. We are committed to providing our customers with eco-efficient solutions and services while preventing and minimizing harmful discharges into the air, water and ground. Our commitments concerning environmental responsibility can be found in our Code of Conduct and in our Environmental Policy setting principles for managing the environmental impacts of Konecranes sites, products and services. Furthermore, we are a signatory member of United Nations Global Compact and its ten principles that underline the need to have a precautionary approach to environmental challenges by examining the whole scope of impacts that our operations might have.

In our industry, the main environmental impacts arise from metal refinement. When assessing the whole lifecycle of our products, the most significant impacts come from energy consumption during the product use phase and from the production of raw materials and components. Both our own operations and supply chain have environmental impacts that we aim to mitigate. We reduce our carbon footprint through voluntary agreements and by setting targets for energy efficiency and emissions. Our target is to reduce our energy intensity (MWh/sales) by 25 percent and greenhouse gas emission intensity (tCO_2e/sales) by 50 percent during 2017–2025. In addition, we are committed to powering our factories with 100 percent renewable electricity by 2025.

In order to achieve significant improvements in environmental performance, we take environmental considerations into account for the entire lifecycle of our products. Usability, eco-efficiency, and safety are our guiding principles in product design – along with lifecycle thinking. Our products can be remanufactured and modernized to extend their lifespan and can be reused, and then finally recycled at the end of their lifespans. In our conjoined product offering we can provide innovative power options such as hybrid and battery technology and other energy saving solutions such as regenerative braking. Our R&D efforts focus on product design, developing and testing different materials, improving energy efficiency and smart features to decrease the environmental impact during their life-cycle. We strive to enhance our service business's ability to create circular value by focusing on extending lifecycle with predictive maintenance, remanufacturing, modernizations and retrofits. The use phase of our products can last for decades so investing in data-driven, eco- and resource-efficient products means the customer can achieve significant reductions in their environmental impacts. Improving our products and services even further by utilizing the possibilities of the industrial internet is one of our strategic initiatives.

On a global scale the most significant environmental risks are related to climate change and the sustainability of materials. We review key corporate responsibility risks to our business on an annual basis to ensure that our mitigation activities throughout the Group are effective. We assess environmental risks in greater detail as part of the environmental management system, where each of our units is responsible for evaluating, prioritizing and mitigating their risks. Assessments are made on a local level using an assessment form to evaluate the severity and probability of the risks. After careful assessment, we formulate risk mitigation plans. Environmental incidents and near miss cases are reported through our global HSE reporting tool, and the investigations of root causes and corrective actions are conducted accordingly. We also use the Konecranes Minimum Requirements for risk prevention, striving for continuous improvement and the defined world-class level. To help mitigate risk in our supply chains, we have begun implementing our Supplier Code of Conduct, which will emphasize the corporate responsibility standards we expect from third parties. Konecranes undertakes due diligence and background checks on suppliers and subcontractors before entering into business relationships. Opportunities that arise from low carbon demand are evaluated as part of our CR strategy review as is the feedback from our Voice of Customer surveys and continuous stakeholder dialogue.

Konecranes Minimum Requirements for chemical handling and waste management are in use globally, setting the minimum level for environmental management. To continuously improve our performance, we have set a target for having full coverage of all our manufacturing sites according to ISO 14001:2015 EMS by the end of 2020. Currently 68 percent of our factories have an ISO 14001 environmental management system in place requiring continuous development and annual targets. In addition, we pay special attention to the use of efficient logistics and packaging, minimizing waste, and reusing and recycling as much as possible.

Social responsibility and employees

Safety is an integral part of our business and prioritizing it in all areas of our operations brings us a competitive advantage. Our occupational health and safety principles are defined in the Code of Conduct, and in the Quality, Environmental, Health and Safety policies, and we have several safety management tools and global practices in place. HSE minimum requirements set the foundational requirements that all Konecranes locations must fulfill. We have a Serious Injury and Fatality (SIF) prevention process that includes measurement and prevention tools. Careful safety reporting and follow-up procedures help us build a coherent safety culture, recognize our most significant risks, and validate the effectiveness of our safety work.

There are considerable occupational health and safety risks in the material handling industry. Our most significant safety risks are related to factory work, crane and equipment installation, and the service business, where our technicians' working conditions vary from job to job. All Konecranes employees are properly trained to perform their tasks safely and correctly.

The Key Performance Indicator (KPI) for Konecranes safety is the lost-time incident rate LTA1, which refers to the number of lost-time incidents per million working hours. Our safety performance in 2018 improved markedly in comparison to 2017. The lost-time incident rate for the year was 5.3 (7.6), an improvement of 30.3 percent compared to the previous year. More emphasis was put on learning from the incidents through increased focus on incident investigation and corrective actions, supported in part by the implementation of the new ARMOR reporting system.

Our target in safety is for everyone to be able return home safe, every day. We seek to achieve these objectives through strategic, Group-led programs and business-specific initiatives. The company follows incidents and hazards through management systems, the ARMOR reporting system and the AIR product compliance management system, as well as through customer feedback collected after each major delivery. Konecranes has also set a target to get all manufacturing units certified against ISO 14001 and OHSAS/ISO 45001 by the end of 2020. Currently we are 20 percent OHSAS certified.

Our talented, inspired and engaged employees help our customers enhance safety and productivity every day. The objective of Konecranes' people management strategy is to ensure we have the needed resources and skillsets for the future, and that our people are capable of meeting future business requirements, while remaining motivated. To further develop their competences, employees are offered a variety of training courses and development activities – from technology, leadership, health and safety, language and culture to project management, and the environment. The main risk related to low employee engagement is losing talent and competences. Konecranes mitigates employee retention risks through fair and competitive compensation, culture and leadership development programs, succession planning, internal job rotation, and talent management, as well as various programs to support professional growth.

We aim to create a diverse working environment and a culture that respects individuals. Fair and responsible practices, equal career development opportunities and embracing diversity are the key enablers in the race to attract employees with the potential to be the best in the industry. We respect and embrace diverse work and lifestyles and cultural differences. We see the various benefits of having a diverse workforce that contains employees from 92 different nationalities from different parts of the world. Fostering diversity, in terms of gender, age and cultural and educational backgrounds encourages innovation, exceptional organizational performance and, most importantly, outstanding customer service. In our view, varied skill sets are a key driver of creativity and value creation, and diversity and inclusivity result in teams that deliver better results.

We manage diversity by increasing awareness, individual projects, and training, but also by implementing diversity and equal opportunity requirements in our daily processes. Our basic people procedures, such as recruitment, career development, rewarding, and learning & development take talent and diversity issues into account and ensure that the decision-making process is transparent and that selections can be justified. In addition, we are introducing a separate diversity policy, which will be rolled out in 2019. It is reinforced by our existing policy on Respect in the Workplace, which communicates our principles on equal opportunities, anti-harassment and fair employment. Konecranes is a signatory of the UN Global Compact initiative and supports the work-related rights defined by the International Labour Organization (ILO). We have also established a global Chief Diversity and Inclusion Officer role to raise awareness and to drive relevant activities forward. The current gender balance within Konecranes is 16 percent female to 84 percent male. The main risks of having a workforce that lacks diversity are possible reputational risks, a deficiency in varying perspectives and approaches brought by people of different ages, races, genders, backgrounds and cultural origins, and the loss of potential talent.

Respect for human rights

Konecranes is a signatory of the UN Global Compact and upholds the work-related rights defined by the International Labour Organization (ILO). We support the protection of human rights and promote the principles set in the UN Universal Declaration of Human Rights, the UN Guiding Principles on Business and Human Rights, the UN Sustainable Development Goals, and the Declaration on Fundamental Principles and Rights at Work of the International Labour Organization. Our corporate policy, Respect in the Workplace, which deals with equal opportunities and fair employment practices, creates a common framework for employee practices.

By signing the United Nations Global Compact in 2010, Konecranes pledged to support and apply the compact's fundamental principles in the area of human rights, working conditions, environmental protection and the fight against corruption. We also expect our partners and suppliers to adhere to the same principles in their operations as specified in our Code of Conduct.

We have translated our commitment to human rights into internal policies that are to be used as the minimum applicable standards. We have included the basic principles of human rights in our Code of Conduct, which is communicated to all our employees and suppliers. Furthermore, we have separate policies on Respect in the Workplace, Safety, and Diversity, all of which also address human rights.

We have set up dedicated management processes and centralized compliance processes to secure employee rights, such as their rights to freedom of association and collective bargaining, and the right to freedom from harassment and discrimination. Human rights are also part of our Code of Conduct training material. Moreover, we have included elements on social responsibility in our supplier audits.

We have established an executive level Compliance & Ethics Committee to oversee the implementation and development of our Compliance and Ethics program and set up a new whistleblowing channel to give our employees an additional means to raise concerns relating to compliance with laws and ethical conduct.

Litigation

Various legal actions, claims, and other proceedings are pending against the Group in different countries. These actions, claims, and other proceedings are typical for this industry and are consistent with the global business offering that encompasses a wide range of products and services. These matters involve contractual disputes, warranty claims, product liability (including design defects, manufacturing defects, failure to warn, and asbestos legacy), employment, auto liability, and other matters involving general liability claims.

Risks and uncertainties

Konecranes operates in emerging countries that face political, economic, and regulatory uncertainties. Adverse changes in the operating environment of these countries may result in currency losses, elevated delivery costs, or loss of assets. Konecranes operates a crane factory in Zaporozhye, Ukraine.

The operations in emerging countries have had a negative impact on the aging structure of accounts receivable and may increase credit losses or the need for higher provisions for doubtful accounts.

Political risks and uncertainties have also increased outside the emerging countries due to the emergence of populism, patriotism and protectionism in a number of Western economies. This has led and can lead to further increases in tariffs on imported goods, such as components that Konecranes manufactures centrally before exporting them to most of the countries in which it operates. The resulting tariffs may result in a decrease in profitability.

Konecranes has made several acquisitions and expanded organically into new countries. A failure to integrate the acquired businesses, MHPS in particular, or grow newly established operations may result in a decrease in profitability and impairment of goodwill and other assets.

One of the key strategic initiatives of Konecranes is oneKONECRANES. This initiative involves a major capital expenditure on information systems. A higher-than-expected development or implementation costs, or a failure to extract business benefits from new processes and systems may lead to an impairment of assets or decrease in profitability.

Konecranes delivers projects, which involve risks related, for example, to engineering and project execution with Konecranes' suppliers. A failure to plan or manage these projects may lead to higher-than-estimated costs or disputes with customers.

Challenges in financing, e.g. due to currency fluctuations, may force customers to postpone projects or even cancel the existing orders. Konecranes intends to avoid incurring costs for major projects under construction in excess of advance payments. However, it is possible that the cost-related commitments in some projects temporarily exceed the amount of advance payments.

The Group's other risks are presented in the Notes to the Financial Statements and the Governance Supplement to the Annual Report.

Demand outlook

The demand environment within the industrial customer segments in EMEA and the Americas is stable and continues at a good level. Also, in APAC the demand environment remains stable. Global container throughput is on a healthy level, although the growth has decelerated. Nevertheless, the prospects for orders related to container handling remain stable.

Financial guidance

Konecranes expects sales in full year 2019 to increase 5–7 percent year on year. Konecranes expects the adjusted EBITA margin to improve in full year 2019 compared to full year 2018.

Board of directors' proposal for disposal of distributable funds

The parent company's non-restricted equity is EUR 967,207,780.36, of which the net income for the year is EUR 119,975,989.88. The Group's non-restricted equity is EUR 1,196,321,000.

According to the Finnish Companies Act, the distributable funds of the company are calculated based on the parent company's non-restricted equity. For the purpose of determining the amount of the dividend, the Board of Directors has assessed the liquidity of the parent company and the economic circumstances subsequent to the end of fiscal year.

Based on such assessments, the Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.20 be paid on each share and that the remaining non-restricted equity is retained in shareholders' equity.

A PDF version of the Konecranes' full audited financial statements, including the report of the Board of Directors, and corporate governance statement will be available on the web on March 1, 2019, and the printed version during the week commencing on Monday March 18, 2019.

Espoo, February 7, 2019
Konecranes Plc
Board of Directors

Consolidated statement of income – IFRS

(1,000,000 EUR)		Jan 1– Dec 31 2018	Jan 1– Dec 31 2017
Note:			
3, 5, 6	**Sales**	**3,156.1**	**3,137.2**
	Other operating income	6.3	227.2
7	Materials, supplies and subcontracting	-1,371.9	-1,409.5
7, 8	Personnel cost	-1,006.5	-1,004.2
9	Depreciation and impairments	-119.9	-117.0
7	Other operating expenses	-498.0	-515.0
	Operating profit	**166.2**	**318.7**
16	Share of associates' and joint ventures' result	4.0	3.3
10	Financial income	2.6	39.8
10	Financial expenses	-34.1	-85.8
	Profit before taxes	**138.7**	**276.0**
11	Taxes	-40.4	-50.6
	PROFIT FOR THE PERIOD	**98.3**	**225.4**
	Profit for the period attributable to:		
	Shareholders of the parent company	101.8	226.1
	Non-controlling interest	-3.5	-0.7
12	Earnings per share, basic (EUR)	1.29	2.89
12	Earnings per share, diluted (EUR)	1.29	2.89

Consolidated statement of other comprehensive income

(1,000,000 EUR)		Jan 1– Dec 31 2018	Jan 1– Dec 31 2017
Note:			
	CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME		
	Profit for the period	**98.3**	**225.4**
	Items that can be reclassified into profit or loss		
34	Cash flow hedges	-13.4	-5.3
	Exchange differences on translating foreign operations	-5.7	-19.2
11.3	Income tax relating to items that can be reclassified into profit or loss	2.7	1.1
	Items that cannot be reclassified into profit or loss		
28	Re-measurement gains (losses) on defined benefit plans	0.7	-1.1
11.3	Income tax relating to items that cannot be reclassified into profit or loss	-0.2	0.7
	Other comprehensive income for the period, net of tax	**-15.9**	**-24.0**
	TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**82.4**	**201.4**
	Total comprehensive income attributable to:		
	Shareholders of the parent company	86.2	203.1
	Non-controlling interest	-3.8	-1.7

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated balance sheet – IFRS

(1,000,000 EUR)	ASSETS	Dec 31 2018	Dec 31 2017
Note:	**Non-current assets**		
13	Goodwill	906.1	905.3
14	Intangible assets	582.0	633.3
15	Property, plant and equipment	236.7	270.4
	Advance payments and construction in progress	14.5	11.5
16	Investments accounted for using the equity method	71.0	69.8
	Other non-current assets	0.8	1.0
17	Deferred tax assets	119.5	118.4
	Total non-current assets	**1,930.5**	**2,009.7**
	Current assets		
18	Inventories	635.8	545.5
19	Accounts receivable	548.0	537.8
20	Other receivables	29.1	43.4
	Income tax receivables	22.3	20.9
6	Receivable arising from percentage of completion method	115.7	78.7
32	Other financial assets	8.9	37.7
21	Deferred assets	46.2	56.2
22	Cash and cash equivalents	230.5	233.1
	Total current assets	**1,636.5**	**1,553.2**
	TOTAL ASSETS	**3,567.0**	**3,562.9**

(1,000,000 EUR)	EQUITY AND LIABILITIES	Dec 31 2018	Dec 31 2017
Note:	**Equity attributable to equity holders of the parent company**		
	Share capital	30.1	30.1
	Share premium	39.3	39.3
	Paid in capital	752.7	752.7
34	Fair value reserves	0.1	10.8
	Translation difference	-2.8	2.6
	Other reserve	55.2	36.6
	Retained earnings	289.4	158.2
	Net profit for the period	101.8	226.1
23	**Total equity attributable to equity holders of the parent company**	**1,265.8**	**1,256.4**
16	Non-controlling interest	18.4	22.5
	Total equity	**1,284.1**	**1,278.9**
	Non-current liabilities		
27, 32	Interest-bearing liabilities	584.6	600.8
28	Other long-term liabilities	269.1	278.7
24	Provisions	21.2	23.0
17	Deferred tax liabilities	143.4	150.1
	Total non-current liabilities	**1,018.3**	**1,052.6**
	Current liabilities		
27, 32	Interest-bearing liabilities	191.8	157.9
6	Advance payments received	341.4	299.8
	Accounts payable	211.2	201.2
24	Provisions	112.6	129.3
25	Other short-term liabilities (non-interest-bearing)	43.0	50.6
32	Other financial liabilities	7.7	6.8
	Income tax payables	20.3	57.0
	Accrued costs related to delivered goods and services	164.1	177.1
25	Accruals	172.5	151.6
	Total current liabilities	**1,264.6**	**1,231.4**
	Total liabilities	**2,282.8**	**2,284.0**
	TOTAL EQUITY AND LIABILITIES	**3,567.0**	**3,562.9**

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity – IFRS

	Equity attributable to equity holders of the parent company									
(1,000,000 EUR)	Share capital	Share premium account	Paid in capital	Cash flow hedges	Translation difference	Other reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2018	**30.1**	**39.3**	**752.7**	**10.8**	**2.6**	**36.6**	**384.3**	**1,256.4**	**22.5**	**1,278.9**
Change in accounting principles (IFRS 9)							-0.8	-0.8		**-0.8**
Change in accounting principles (IFRS 2)						1.5	0.0	1.5		**1.5**
Balance at 1 January 2018, restated	30.1	39.3	752.7	10.8	2.6	38.1	383.4	1,257.0	22.5	**1,279.5**
Dividends paid to equity holders							-94.6	-94.6	-0.4	**-94.9**
Equity-settled share based payments (note 29)						17.1	0.0	17.1		**17.1**
Profit for the period							101.8	101.8	-3.5	**98.3**
Other comprehensive income				-10.7	-5.4		0.5	-15.6	-0.3	**-15.9**
Total comprehensive income				-10.7	-5.4		102.3	86.2	-3.8	**82.4**
Balance at 31 December 2018	**30.1**	**39.3**	**752.7**	**0.1**	**-2.8**	**55.2**	**391.2**	**1,265.8**	**18.4**	**1,284.1**
Balance at 1 January 2017	**30.1**	**39.3**	**66.5**	**15.0**	**20.8**	**31.7**	**242.0**	**445.4**	**0.1**	**445.5**
Change in accounting principles (IFRS 15)							-1.1	-1.1		**-1.1**
Balance at 1 January 2017, restated	30.1	39.3	66.5	15.0	20.8	31.7	240.9	444.3	0.1	**444.4**
Share issue			686.2				0.0	686.2		**686.2**
Dividends paid to equity holders							-82.3	-82.3	-0.5	**-82.9**
Equity-settled share based payments (note 29)						4.9	0.0	4.9		**4.9**
Acquisitions							0.0	0.0	24.7	**24.7**
Profit for the period							226.1	226.1	-0.7	**225.4**
Other comprehensive income				-4.2	-18.2		-0.4	-22.9	-1.0	**-23.9**
Total comprehensive income				-4.2	-18.2		225.7	203.2	-1.7	**201.5**
Balance at 31 December 2017	**30.1**	**39.3**	**752.7**	**10.8**	**2.6**	**36.6**	**384.3**	**1,256.4**	**22.5**	**1,278.9**

Consolidated cash flow statement – IFRS

(1,000,000 EUR)		Jan 1– Dec 31 2018	Jan 1– Dec 31 2017
Note:	**Cash flow from operating activities**		
	Profit for the period	98.3	225.4
	Adjustments to net profit for the period		
	Taxes	40.4	50.6
	Financial income and expenses	31.5	46.0
	Share of associates' and joint ventures' result	-4.0	-3.3
	Dividends income	0.0	0.0
	Depreciation and impairments	119.9	117.0
	Profits and losses on sale of fixed assets	3.8	-217.5
	Other adjustments	5.2	0.7
	Operating income before change in net working capital	**295.1**	**218.9**
	Change in interest-free current receivables	3.9	13.0
	Change in inventories	-91.1	-1.9
	Change in interest-free current liabilities	-4.3	105.0
	Change in net working capital	**-91.5**	**116.1**
	Cash flow from operations before financing items and taxes	**203.5**	**335.0**
10	Interest received	19.3	14.6
10	Interest paid	-38.4	-43.4
10	Other financial income and expenses	7.4	-18.7
11	Income taxes paid	-82.5	-38.2
	Financing items and taxes	**-94.3**	**-85.6**
	NET CASH FROM OPERATING ACTIVITIES	**109.2**	**249.4**

(1,000,000 EUR)		Jan 1– Dec 31 2018	Jan 1– Dec 31 2017
Note:	**Cash flow from investing activities**		
4	Acquisition of Group companies, net of cash	0.0	-733.2
4	Divestment of businesses, net of cash	1.1	213.4
	Proceeds from disposal of associated company	0.0	2.8
	Capital expenditures	-38.3	-28.7
	Proceeds from sale of property, plant and equipment and other	2.2	3.7
	NET CASH USED IN INVESTING ACTIVITIES	**-35.0**	**-542.0**
	Cash flow before financing activities	**74.2**	**-292.6**
	Cash flow from financing activities		
	Proceeds from non-current borrowings	0.0	1,602.0
	Repayments of non-current borrowings	-14.5	-1,050.0
	Proceeds from (+), payments of (-) current borrowings	34.6	-140.7
	Change in loans receivable	-0.3	11.6
	Dividends paid to equity holders of the parent company	-94.6	-82.3
	Dividends paid to non-controlling interests	-0.4	-0.5
	NET CASH USED IN FINANCING ACTIVITIES	**-75.2**	**340.0**
	Translation differences in cash	-1.6	-8.6
	CHANGE OF CASH AND CASH EQUIVALENTS	**-2.6**	**38.9**
	Cash and cash equivalents at beginning of period	233.1	194.1
22	Cash and cash equivalents at end of period	230.5	233.1
	CHANGE OF CASH AND CASH EQUIVALENTS	**-2.6**	**38.9**

The effect of changes in exchange rates has been eliminated by converting the beginning balance at the rates current on the last day of the year.

The accompanying notes form an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

1. Corporate information

Konecranes Plc ("Konecranes Group" or "the Group") is a Finnish public limited company organized under the laws of Finland and domiciled with its principal place of business in Hyvinkää. The company is listed on the NASDAQ Helsinki.

Konecranes is a world-leading manufacturer and servicer of cranes, lifting equipment and machine tools, serving a broad range of customers, including manufacturing and process industries, shipyards, ports and terminals. Konecranes operates internationally, with its products being manufactured in North and South America, Europe, Africa, the Middle East, and Asia and sold worldwide. Konecranes has three reportable segments, which it calls Business Areas: Business Area Service, Business Area Industrial Equipment and Business Area Port Solutions.

2. Accounting principles

2.1. Basis of preparation

The consolidated financial statements of Konecranes Plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The consolidated financial statements have been prepared on a historical cost basis, except for items that are required by IFRS to be measured at fair value, principally certain financial instruments.

The consolidated financial statements including notes thereto are presented in millions of euros and all values are rounded to the nearest million (€000,000) except when otherwise indicated.

Due to the rounding, some totals might differ from the sum of individual figures as calculations are done originally in thousands of euros.

The financial statements were approved for issuance by the Board of Directors on February 6,2019.

Principles of consolidation

The consolidated financial statements comprise the consolidated balance sheet of Konecranes Plc and its subsidiaries as at December 31, 2018 and 2017 and the consolidated statements of income and cash flows for the periods ended December 31,2018 and 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in its associates and joint ventures are accounted for using the equity method. Under this method, the consolidated financial statements show the Group's investment in and share of net assets of the associate or joint venture. Any premium over net assets paid to acquire an interest in an associate or joint venture is recognized as goodwill within the same line as the underlying investment. The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss as Share of profit of an associate and a joint venture in the statement of profit or loss.

2.2. Use of estimates and judgments

Estimates

The preparation of the financial statements in accordance with IFRS requires management to make estimates and judgments that affect the valuation of reported assets and liabilities and other information, such as contingent liabilities and recognition of income and expenses in the statement of income. These assumptions, estimates and judgments are based on management's historical experience, best knowledge about the events and other factors, such as expectations on future events, which the Company assess to be reasonable in the given circumstances. Although these estimates and judgments are based on the management's best understanding of current events and circumstances, actual results may differ from the estimates. Changes in estimates and assumptions are recognized in the financial period the estimate or assumption is changed.

The most important items in the consolidated financial statements, which require management's estimates and that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change are impairment testing, recognition of deferred taxes, measurement of the fair value of assets and actuarial assumptions in defined benefit plans, and percentage of completion revenue recognition in long term projects.

Impairment testing

The recoverable amount for goodwill has been determined based on value in use of the relevant cash generating unit to which the goodwill is allocated. The recoverable amounts of all material intangible assets and property, plant and equipment have also been based on their value in use. The impairment testing of goodwill is based on numerous judgmental estimates of the present value of the cash flows which effect the valuation of the cash generating units (CGU) pertaining to the goodwill. Cash flow forecasts are made based on CGU specific historical data, order book, the current market situation and industry specific information of the future growth possibilities. These assumptions are reviewed annually as part of management's budgeting and strategic planning cycles and can be subject to significant adjustment as arising from the development of the global economy, pressure from competitors' products as well as changes in raw material prices and operating expenses. The value of the benefits and savings from the efficiency improvement programs already announced and included in certain cash flow estimates are also subjective and based on management's best estimate of the impact. The fair value of the CGUs is determined using a derived weighted average cost of capital as the rate to discount estimated future cash flows. The discount rate used may not be indicative of actual rates obtained in the markets in the future. See note 13.

Business Combinations

Acquisitions of subsidiaries are accounted for using the acquisition method according to which the acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition. The excess of the consideration transferred for the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The measurement of fair value of the acquired net assets is based on market value of similar assets (property, plant and equipment), or an estimate of expected cash flows (intangible assets). The valuation, which is based on prevailing repurchase value, expected cash flows or estimated sales price, requires management judgement, estimates and assumptions. See note 4.

Recognition of deferred taxes

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or in which tax losses can be utilized. The tax effect of unused tax losses is recognized as a deferred tax asset when it becomes probable that the tax losses will be utilized. In making assessments regarding deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. The actual current tax exposure is estimated together with assessing temporary differences resulting from differing treatment of items, such as depreciation, provisions and accruals, for tax and accounting purposes. When recording the deferred tax assets judgment have been based on the estimates of the taxable income in each subsidiary and country in which Konecranes operates, and the period over which the deferred tax assets will be recoverable based on the estimated future taxable income and planned tax strategies to utilize these assets. The amount of deferred tax assets considered realizable could however be reduced in subsequent years if estimates of future taxable income during their carry forward periods are reduced, or rulings by the tax authorities are unfavorable. Estimates are therefore subject to change due to both market related and tax authorities related uncertainties, as well as Konecranes' own future decision matters such as restructuring. Konecranes is unable to accurately quantify the future adjustments to deferred income tax expense that may occur as a result of these uncertainties. See note 17.

Actuarial assumptions in defined benefit plans

The net pension liability and expense for defined benefit plans is based on various actuarial assumptions such as the assumed discount rate, expected development of salaries and pensions and mortality rates. Significant differences between assumptions and actual experience, or significant changes in assumptions, may materially affect the pension obligations. The effects of actual results differing from assumptions and the changing of assumptions are included in Remeasurement gains/loss on defined benefit plans in other comprehensive income. Discount rates are determined annually based on changes in long-term, high quality corporate bond yields.

Decreases in the discount rates results in an increase in the defined benefit obligation and in pension costs. Conversely, an increase in the discount rate results in a decrease in the defined benefit obligation and in pension costs. Increases and decreases in mortality rates have an inverse impact on the defined benefit obligation and pension costs. Increases and decreases in salary and pension growth rates have a direct correlating impact on the defined benefit obligation and pension costs.

The assumed discount rate, which is based on rates observed at the end of the preceding financial year may not be indicative of actual rates realized. The actual development for salaries and pensions may not reflect the estimated future development due to the uncertainty of the global economy and various other factors. Konecranes uses generational mortality tables to estimate probable future mortality improvements. These tables assume that the trend of increasing life expectancy will continue, resulting in pension benefit payments to younger members being likely to be paid for longer time periods than older members' pensions, given that assumed retirement ages are those defined in the rules of each plan.

The funded status, which can increase or decrease based on the performance of the financial markets or changes in our assumptions, does not represent a mandatory short-term cash obligation. Instead, the funded status of a defined benefit pension plan is the difference between the defined benefit obligation and the fair value of the plan assets. See note 28.

Revenue recognition over time in long term projects

Konecranes applies the percentage of completion method for recognizing revenue over time from certain long term large crane projects and modernizations in accordance with IFRS 15 Revenue Recognition. The percentage of completion is based on the cost-to-cost method. Under this method, progress of contracts is measured by actual costs incurred in relation to management's best estimate of total estimated costs at completion, which are reviewed and updated routinely for contracts in progress. The cumulative effect of any change in estimate is recorded in the period in which the change in estimate is determined.

The percentage-of-completion method of accounting involves the use of assumptions and projections, principally relating to future material, labor and project-related overhead costs. As a consequence, there is a risk that total contract costs will exceed those originally estimated and the margin will decrease or the contract may become unprofitable. This risk increases as the duration of a contract increases because there is a higher probability that the circumstances upon the estimates were originally based will change, resulting in increased costs that may not be recoverable. Factors that could cause costs to increase include: unanticipated technical problems with equipment supplied or developed by us which may require us to incur additional costs to remedy, changes in the cost of components, materials or labor, project modifications creating unanticipated costs, suppliers' or subcontractors' failure to perform, and delays caused by unexpected conditions or events. By recognizing changes in estimates cumulatively, recorded revenue and costs to date reflect the current estimates at the stage of completion for each project. Additionally, losses on long-term contracts are recognized in the period when they are identified and are based upon the anticipated excess of contract costs over the related contract revenues.

Judgments

There have been no changes in judgments throughout the years 2018 and 2017.

2.3. Summary of significant accounting policies

Revenue recognition

Revenue is recognized at an amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer and to the extent that it is probable that the economic benefits will flow to the Company, that revenue can be reliably measured, and that collectability is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable. The creditworthiness of the buyer is assessed before engaging into a sale. However, if a risk of non-payment arises after revenue recognition, a provision for non-collectability is established.

Company recognizes revenue when it satisfies an identified performance obligation by transferring promised goods or service to the customer. Goods and services are generally considered to be transferred when the customer obtains the control to it. Control means that the customer can direct the use of and obtain benefit from the good and service and also prevent other directing the use of and receiving the benefits from them. Thus, customer has sole possession of the right to use the good or service for the remainder of its economic life or to consume the good or service in its own operations.

The transaction price is usually fixed but may also include variable considerations such as volume or cash discounts or penalties. Variable consideration is included in the revenue only to the extent that it is highly probable that the amount will not be subject of significant reversal when the uncertainty is resolved. The variable considerations are estimated using the most likely value method if not yet realized in the end of the reporting period. If the contract is separated in to more than one performance obligation, Konecranes allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services in each performance obligation or if the standalone selling prices do not exist Konecranes typically uses the expected cost plus a margin approach to estimate the standalone selling price.

Nature of goods and services and timing of satisfaction of performance obligations and significant payment terms

Service segment principally generates revenue from providing maintenance and consultative services as well as spare parts for all types and makes of industrial cranes and hoists. Service also provides modernizations which are complete transformations of existing crane as an alternative to replacing them. Revenue from services is recognized when the outcome of the transaction can be estimated reliably and by customer acknowledgement for the completion of the service work or by reference to the stage of completion based on services performed at the end of the reporting period if it can be measured. The assessment of the stage of completion is dependent on the nature of the contract but will generally be based on costs incurred to the extent these relate to services performed up to the reporting date. In modernization projects, typically customer controls the assets that is enhanced thus the revenue is recognized over time according to the percentage of completion method. In spare parts business, the transfer of control and revenue recognition usually takes place either when goods are shipped or made available to the buyer for shipment, depending on the terms of the contract or when the customer has accepted the delivery. Usually customers pay according to agreed payment terms after the services and products have been delivered. Sometimes it is required that the payment is done in advance. In these cases, for example in annual maintenance contracts, the payment is periodized to meet the revenue recognition in accordance with the delivery of services and goods. In modernization project the customers are typically required to make advance payments according to the milestones defined in the modernization project contract.

Industrial Equipment segment generates revenue from hoists, cranes and material handling solutions for a wide range of customers. For standard equipment and components, the revenue is recognized when goods are shipped or made available to the buyer for shipment, depending on the terms of the contract or when the customer has accepted the delivery, which is typically an installed crane. The revenue from large engineered crane projects is recognized over time according to the percentage of completion (POC) method as those contracts are specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Konecranes is then also entitled to an amount that at least compensates the entity for performance completed to date even if the customer can terminate the contract for the reasons other than our failure to perform as promised. In general, the warranty period for cranes is two years for which Group records a warranty provision based on historical data. The revenue for extended warranty is recognized over the extended warranty period. In crane projects the customers are typically required to make advance payments in accordance with the milestones defined in the crane project contract.

Port Solutions segment generate revenue from container handling equipment, shipyard equipment, mobile harbor cranes, heavy-duty lift-trucks and Port Solution related software. All equipment deliveries are supported by a complete range of services. Most of the container handling and shipyard equipment as well as mobile harbor cranes are tailored and engineered to the customer needs so the revenue from these projects is recognized over time according to the percentage of completion (POC) method as those contracts are specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Konecranes is then also entitled to an amount that at least compensates the entity for performance completed to date even if the customer can terminate the contract for the reasons other than our failure to perform as promised. The revenue of lift trucks and standard ports equipment is recognized when goods are shipped or made available to the buyer for shipment, depending on the terms of the contract or when the customer has accepted the delivery. The general warranty period for ports equipment differs to some extent depending on the components used in the projects. For general warranty Group records a warranty provision based on historical data. The revenue for possible extended warranty is recognized over the extended warranty period. In Port Solutions projects the customers are typically required to make advance payments according to the milestones defined in the project contract.

Measurement of stage of completion for performance obligations satisfied over time

The stage of completion of a contract is determined by the proportion that the contract costs incurred for the work performed to date bear to the estimated total contract costs (cost-to-cost method) at completion. This depicts best the transfer of control to the customer, which occurs as we incur costs on our contracts. When the final outcome of a project cannot be reliably determined, the costs arising from the project are expensed in the same reporting period in which they occur, but the revenue from the project is recorded only to the extent that the Group will receive an amount corresponding to actual costs. An expected loss on a contract is recognized immediately in statement of income. Revenue in respect of variations to the contract scope and claims is recognized when it is probable that it will be received and is capable of being measured reliably.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete and its ability to use or sell the asset.
- How the asset will generate future economic benefits.
- The availability of resources to complete the asset.
- The ability to reliably measure the expenditure during development.

Amortization of capitalized development costs begins when development is complete and the asset is available for use.

Adjusted EBITA

Adjusted operating profit before amortization and impairment of purchase price allocations (a non-GAAP measure) represents earnings from continuing operations before income taxes (a GAAP measure), excluding restructuring, transaction and restructuring related asset impairment costs as well as other adjusting items, amortization and impairment of purchase price allocations and financial income and expense. See also note 3.

Earnings per share

Basic earnings per share are computed by dividing net income from continuing operations and net income from discontinued operations all attributable to ordinary shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated by assuming conversion or exercise of all potentially dilutive share-based payment plans.

Dividend distribution

The company recognizes a liability to make dividend distributions to equity holders when the distribution is approved by the shareholders. A corresponding amount is recognized directly in equity.

Employee benefits

Konecranes companies have various pension plans in accordance with local conditions and practices. Pensions are generally managed for the Group companies by outside pension insurance companies or by similar arrangements. These pension plans are classified either as defined contribution or defined benefit plans. Under defined contribution plans, expenses are recognized for the period the contribution relates to. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay employee benefits. The Konecranes Group accounts for the Finnish system under the Employees' Pensions Act (TyEL) within insurance system as a defined contribution plan.

Under defined benefit plans, a liability recognized in the balance sheet equals to the net of the present value of the defined benefit obligation (calculated using the Projected Unit Credit Method) less the fair value of the plan assets at the balance sheet date. Actuarial gains and losses are recognized in the consolidated statement of other comprehensive income as remeasurement items when they occur. Remeasurement recorded in other comprehensive income is not recycled. Past service cost is recognized in the statement of profit or loss in the period of plan amendment. Net-interest is calculated by applying the discount rate to the net defined liability or asset. Independent actuaries calculate the defined benefit obligation by applying the Projected Unit Credit Method. The Group presents service cost, past-service cost, gains and losses on curtailments and settlements and net interest expense or income as Personnel cost – Pension costs: Defined benefit plans in the statement of income (see Note 8).

A liability for termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Share based payments

Employees (including senior executives) of the Group and its subsidiaries receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions) or receive settlement in cash (cash-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognized, together with a corresponding increase in other reserves in equity, over the period in which the performance and/or service conditions are fulfilled in Personnel cost – Other personnel expense in the statement of income. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit recorded in the statement of income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled, award are modified, the minimum expense recognized is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

The tax laws or regulations usually obliges Konecranes to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf. To fulfil this obligation, the terms of the share-based payment arrangement permits Konecranes to withhold the number of equity instruments equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon vesting of the share-based payment. This share-based payment arrangement with a net settlement feature is classified in its entirety as an equity-settled share-based payment transaction and the payment made shall be accounted for as a deduction from equity for the shares withheld.

Cash-settled transactions

The cost of cash-settled transactions, which is usually related to the additional employee social cost of the share based payments, is measured initially at fair value at the grant date using a binomial model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in Personnel cost – Other personnel expenses in the statement of income (see Note 8).

Foreign currency translation

The Group's consolidated financial statements are reported in euros, which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognized by the Group entities at their respective functional currency rates prevailing at the date of the transaction. At the end of each reporting period, foreign currency monetary items are retranslated at the functional currency spot exchange rate in effect at the reporting date. The resulting foreign currency exchange differences are recorded in the statement of income with the exception of differences that arise on monetary items that provide an effective hedge for a net investment in a foreign operation (such as intragroup loans where settlement is neither planned nor likely to occur in the foreseeable future). These are recognized in other comprehensive income until the disposal of the net investment, at which time they are recognized in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Foreign operations

The assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date and their income statements are translated at average exchange rates for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Income tax

Taxes shown in the consolidated statement of income include income taxes to be paid on the basis of local tax legislations, tax adjustments from previous years as well as the effect of the annual change in the deferred tax liability and deferred tax balances. Taxes are calculated using rates enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities and deferred tax assets are calculated on all temporary differences arising between the tax basis and the book value of assets and liabilities. Deferred tax is not recognized for non-deductible goodwill on initial recognition and temporary differences in investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. The main temporary differences arise from unused tax losses, depreciation differences, provisions, defined benefit pension plans, inter-company inventory margin and derivative financial instruments. In connection with an acquisition, the Group records provisions for deferred taxes on the difference between the fair values of the net assets acquired and their tax bases. A deferred tax asset is recognized to the extent that it is probable that it can be utilized.

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method according to which the acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition. The excess of the consideration transferred for the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. For each acquisition the non-controlling interest in the acquiree, if any, can be recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. If the purchase consideration is less than the fair value of the Group's share of the net assets acquired, the difference is recognized directly through the profit and loss. Direct acquisition transaction costs are expensed as incurred.

Asset held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a disposal rather than through the continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate disposal in its present condition. Actions required to complete the disposal should indicate that it is unlikely that significant changes to the disposal will be made or that the decision to dispose will be withdrawn. Management must be committed to the disposal expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Intangible assets

Intangible assets include service contracts, patents and trademarks as well as software licenses and implementation costs. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Intangible assets with definite useful life are amortized on the straight-line basis over expected useful lives, which may vary from 5 to 20 years with service contracts and patents and trademarks and from 4 to 7 years with software licenses. They are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Intangible assets with indefinite useful life are not amortized, but they are tested annually for impairment in a manner equivalent to that for testing goodwill. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Impairment testing of goodwill

Goodwill acquired in a business combination is tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. If the carrying amount for a CGU exceeds its recoverable amount, an impairment loss equal to the difference is recognized. Konecranes uses a discounted cash flow analyses to assess the fair value of goodwill. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations cover a period of five years. A previously recognized impairment loss on goodwill is not reversed even if there is a significant improvement in circumstances having initially caused the impairment.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Depreciation is recorded on a straight-line basis over the estimated useful economic life of the assets as follows:

- Buildings 10–40 years
- Machinery and equipment 3–10 years

No depreciation is recorded for land.

Expectations made for existing property, plant and equipment that will provide future economic benefit are capitalized and depreciated over the remaining useful life of the asset.

Impairment of assets subject to amortization and depreciation

The carrying values of intangible assets subject to amortization, property, plant and equipment and investments in associates and joint ventures are reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such an indication exists, the recoverable amount of the assets will be estimated.

The recoverable amount is the higher of the assets fair value less selling costs and value in use which is the present value of the cash flows expected from the asset's use and eventual disposal. An impairment loss is recognized in the statement of income when the recoverable amount of an asset is less than its carrying amount. Impairment losses on these assets are reversed if their recoverable amounts subsequently increase.

Valuation of inventories

Raw materials and supplies are valued at the acquisition cost or, if lower, at the net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Semi-manufactured goods are valued at variable production costs including a share of production overheads based on normal capacity. Work in progress of uncompleted orders includes direct labor and material costs, as well as a proportion of overhead costs related to production and installation. Raw materials and supplies are valued using the first-in, first-out (FIFO) basis or weighted average cost. The inventory stock obsolescence provision is based on the best estimate of slow-moving and obsolete inventory at the balance sheet date. The estimates are based on frequent review and evaluation of inventory ageing and composition.

Account and other receivables

Account and other receivables are initially recorded at fair value after which they are subsequently measured at amortized cost. Account receivables represent the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due.) The provision for doubtful accounts is estimated based on the Group's historical credit loss experience adjusted with current conditions and reasonable and supportable forecasts about the future. The effect is recognized in the statement of income.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with banks and other liquid investments with original maturities of three months or less. Bank overdrafts are included in current interest-bearing liabilities.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Group categorizes assets and liabilities measured at fair value into one of three levels depending on the ability to observe inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable, either directly or indirectly, other than quoted prices included within level 1 for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability reflecting significant modifications to observable related market data or Konecranes' assumptions about pricing by market participants.

Derivative financial instruments and hedge accounting

The Group's global operations expose it to currency risk and to a lesser extent interest rate risk.

The Group uses derivative financial instruments, primarily forward contracts and interest rate swaps, to hedge its risks associated with foreign currency fluctuations relating to certain commitments and forecasted transactions and interest rate risks. Derivative financial instruments are used for hedging purposes in accordance with the Group's hedging policy and not for speculative purposes. These instruments are initially recognized at fair value at the derivative contract date, and are re-measured to fair value at subsequent reporting dates. Derivatives are presented as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For certain large crane projects, the Group applies hedge accounting. The Group applied also hedge accounting to the USD denominated purchase price of MHPS acquisition. The Group designates hedges of the foreign currency risk of firm commitments and highly probable forecasted transactions to a cash flow hedge. Changes in the fair value of derivative financial instruments that are designated as effective hedges of future cash flows are recognized directly in other comprehensive income, while the ineffective portion is recognized immediately in the income statement. See note 34.

Amounts recognized as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in the other comprehensive income is transferred to profit or loss for the period.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the statement of income as they arise.

The Group does not apply fair value hedging.

Financial assets

Financial assets are classified as financial assets at fair value through profit or loss; financial assets at fair value through OCI; or financial assets at amortized cost. Financial assets are classified according to their cash flow characteristics and the business model they are managed in and accounted for at settlement date. They include account and other receivables, interest bearing investments and derivative financial instruments. The measurement of financial assets depends on their classification, as follows:

Financial assets at amortized cost

Account receivables and other receivables are recognized at their anticipated realizable value which is the original invoice amount less an estimated provision for doubtful accounts for impairment. The increase in the credit risk for financial assets measured at amortized cost is assessed at the end of the reporting period. The credit loss allowance is estimated based on the Group's historical credit loss experience adjusted with current conditions and reasonable and supportable forecasts about the future. The Group applies the simplified approach to record expected credit losses on its accounts receivable by using a provision matrix where accounts receivable is grouped based on different customer bases and different historical loss patterns.

Financial assets at fair value through statement of income

Interest-bearing investments, which are non-derivative financial assets and have fixed or determinable payments and are not quoted on active markets, are measured at fair value through the statement of income. This category also includes derivatives that are not qualifying for hedge accounting.

Financial assets at fair value through other comprehensive income

Derivatives that are qualifying for hedge accounting are classified as financial assets at fair value through other comprehensive income. The treatment of gains and losses arising from revaluation is described above in the accounting policy for derivative financial instruments and hedging accounting.

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss; financial liabilities at fair value through other comprehensive income; or as financial liabilities measured at amortized cost, as appropriate. Financial liabilities include trade and other payables, finance debt and derivative financial instruments. The Group determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognized in the income statement. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

Financial liabilities at fair value through other comprehensive income

These financial liabilities are typically derivatives designated for hedge accounting and are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described above in the accounting policy for derivative financial instruments and hedging accounting.

Financial liabilities measured at amortized cost

All other financial liabilities are initially recognized at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized respectively in interest and other income and finance costs. This category of financial liabilities includes accounts payables and interest-bearing liabilities.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently existing, legally enforceable, unconditional right of offset that applies to all counterparties of the financial instruments in all situations, including both normal operations and insolvency.

Provisions

Provisions are recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is considered probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions may arise from restructuring plans, onerous contracts, guarantees and warranties, among other events. Obligations arising from restructuring plans are recognized when the detailed and formal restructuring plans have been established, the personnel concerned have been informed and when there is a valid expectation that the plan will be implemented. The warranty provision is based on the history of past warranty costs and claims on delivered products under warranty. Additionally, warranty provisions can be established on a case by case basis to take into consideration the potentially increased risks.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain.

Leases

Lease contracts, in which the Group assumes substantially all risks and rewards of ownership, are classified as finance leases. In finance leases, the assets are recognized in property, plant and equipment at the lower of fair value or the present value of the minimum lease payments as determined at the inception of the lease. The value capitalized is amortized on a straight-line basis over the shorter of the lease period or the useful economic life of the asset. The corresponding lease obligations are included in interest-bearing liabilities.

Other lease contracts are classified as operating leases where the lease payments of these leases are recognized as rental expenses in the statement of income on a straight-line basis over the lease term.

Cash flow statement

The cash flow statement has been prepared in accordance with the indirect method. In the cash flow statement a distinction is made between cash flows from operating, investing and financing activities. Currency differences on cash and cash equivalents are recognized separately in the cash flow statement. Revenue and expenses for income tax are recognized under Cash flows from operating activities. Interest costs and interest revenues are recognized under Cash flows from operating activities. Cash flows as a result of the acquisition or disposal of financial interests (subsidiaries and interests) are recognized under Cash flows from investing activities, taking into account the cash, cash equivalents and repaid third party debts present in these interests. Dividends paid out, as well as obtained loans, are recognized under Cash flows from financing activities.

2.4. Application of new and amended IFRS standards and IFRIC interpretations

The relevant new or revised IFRSs that Konecranes has adopted from January 1, 2018 are the following:

IFRS 9 Financial Instruments introduces a single approach for the classification and measurement of financial assets according to their cash flow characteristics and the business model they are managed in, and provides a new impairment model based on expected credit losses. IFRS 9 also includes new regulations regarding the application of hedge accounting to better reflect an entity's risk management activities especially with regard to managing non-financial risks.

The Group has updated its categorization of financial assets and liabilities. This did not have any impact on the balances but rather changed the terminology. The table below illustrates the classification of financial assets and liabilities under IAS 39 and IFRS 9.

Financial assets	Classification under IAS 39	Classification under IFRS 9
Account and other receivables	Loans and receivables	Amortized cost
Derivative financial instruments	Financial assets at fair value through statement of income	Fair value through statement of income
Derivative instruments designated for hedge accounting	Financial assets at fair value through other comprehensive income	Fair value through other comprehensive income
Cash and cash equivalents	Loans and receivables	Amortized cost

Financial liabilities	Classification under IAS 39	Classification under IFRS 9
Account and other payables	Financial liabilities measured at amortized cost	Amortized cost
Interest-bearing liabilities	Financial liabilities measured at amortized cost	Amortized cost
Derivative financial instruments	Financial liabilities at fair value through statement of income	Fair value through statement of income
Derivative instruments designated for hedge accounting	Financial liabilities at fair value through other comprehensive income	Fair value through other comprehensive income

The new hedging model leads to more economic hedging strategies meeting the requirement for hedge accounting. All existing hedge relationships that were previously designated in effective hedging relationships still qualified for hedge accounting under IFRS 9. The Group continues measuring at fair value all financial assets which were earlier measured at fair value. Accounts receivable are held to collect contractual cash flows and are expected to rise from cash flows representing solely payments of principal and interest. These are initially recorded at fair value through profit or loss after which they are subsequently measured at amortized cost under IFRS9. The Group applies the simplified approach to record expected credit losses on its accounts receivable. The Group estimates credit losses in the future by using a provision matrix where accounts receivable is grouped based on different customer bases and different historical loss patterns. Under the simplified model, companies can adjust the historical provision rates, which are an average of historical outcomes of credit losses, for their accounts receivable to reflect relevant information about current conditions and reasonable and supportable forecasts about the future. Based on analysis and transition adjustment calculations, IFRS 9 did not have a material effect on the level of provision for credit losses. The effect in the provision was EUR +1.2 million, EUR +0.4 million in the deferred tax assets and EUR -0.8 million in the retained earnings at the end of 2017.

IFRS 15 Revenue from Contracts with Customers recognizes revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the customer obtains control of the goods or services. IFRS 15 also includes guidance on the presentation of contract balances, that is, assets and liabilities arising from contracts with customers, depending on the relationship between the entity's performance and the customer's payment. In addition, the new standard requires a set of quantitative and qualitative disclosures to enable users of the Group's consolidated financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 supersedes IAS 11, Construction Contracts and IAS 18, Revenue as well as related interpretations. Konecranes applied the full retrospective approach in transition.

Revenue recognition from contracts with customers, in which sale of equipment is generally expected to be the only performance obligation, did not have any impact on the Group's profit and loss. The revenue recognition occurs at a point in time when control of the asset is transferred to the customer. Goods sold as installed are considered to be one performance obligation and the revenue recognition takes place once the commissioning has been done and approved by the customer. The revenue recognition of long term projects has been impacted slightly as the criteria for recognizing the revenue over time (percentage of completion method) has changed and is based on the fact that at any time during the contract term, Konecranes must be entitled to an amount that at least compensates the Group for performance completed to date, even if the customer can terminate the contract for reasons other than our failure to perform as promised.

The Group provides installation and maintenance services within the service segment. These services are sold either on their own service contracts or bundled together with the sale of equipment to a customer. Group continues to recognize the service revenue when the outcome of the transaction can be estimated reliably and by customer acknowledgement or by reference to the stage of completion based on services performed at the end of the reporting period. The assessment of the stage of completion is based on costs incurred to the extent these relate to services performed up to the reporting date. IFRS 15 did not have any material impact on the Group's profit and loss statement for revenue recognition of installation and maintenance services.

Sales contracts could give customers the option to purchase additional goods, which may be priced at a discount. These kinds of options are considered to be separate performance obligations and the revenue can be recognized if it provides a material right to the customers. The right is material if it results in a discount that the customer would not receive without entering into the contract. If the discounted price in the option reflects the stand alone selling price, it is deemed to be more a marketing offer than a material right. Previous practice was to recognize the revenue when the customer is utilizing the option.

In the past Group recognized revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of estimated probable returns and allowances, trade discounts and volume rebates. Such provisions give rise to variable consideration in IFRS 15 and are required to be estimated at contract inception. Contracts with customers that provide right of return, trade discounts or volume rebates are rarely used by the Group, thus their effect to the revenue recognition is immaterial.

In project business, the contracts usually have clauses for penalties of late deliveries or penalties if the delivery cannot take place in time due to the customer reason. The penalties for late deliveries were in the past accounted as provisions for cost when their probability is more likely than not to occur. The penalty payments were recognized as sales when the penalty clauses in the contract have been satisfied. Such penalties are now treated as a variable consideration in IFRS 15 and are estimated at contract inception. This reduced the Group's recognized revenue to some extent when the penalties accounted for costs were deducted from sales according to IFRS 15.

The Group provides for warranties related to general repairs and product liability. According to the analyses prepared some contracts might include extended warranties over the normal industry standard warranty period as well as service-type warranties and thus can effect on the timing of the revenue recognition. The past practice was to make a provision for this warranty liability. Most of the warranties will still be assurance type warranties which will continue to be accounted for under IAS37 consistent with Group's current practice.

Based on analysis and transition adjustment calculations, the effect of IFRS 15 to the sales of 2017 was EUR +0.7 million, to EBIT EUR +0.4 million and to net result EUR +0.4 million. The effect to the 1.1.2017 retained earnings was approximately EUR -1.1 million and to the 1.1.2018 retained earnings approximately EUR -0.6 million as shown in the table below:

Statement of income (EUR million)	**Jan 1–Dec 31 2017**
Sales	0.7
Operating costs	-0.3
Adjusted EBITA	0.4
EBIT	0.4
Taxes	0.0
Net result	0.4

Balance sheet (EUR million)	**Dec 31 2017**
Inventories	0.5
Receivables and deferred assets	-0.6
Deferred tax assets	0.1
Total assets	0.0
Equity	-0.6
Accruals	0.5
Deferred tax liability	0.0
Total equity and liabilities	0.0

IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendment to IFRS2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification form cash settled to equity settled.

On adoption, the amendments were applied without restating prior periods. The amendments were effective as of 1.1.2018. The Group has performance share plans in which the share-based payment transaction with net settlement features for withholding tax obligations. According to IFRS 2 amendment, the existing plans at 1.1.2018 were not divided anymore into two components (cash-settled and equity-settled) but are classified in their entirety as equity-settled share-based payment transactions. Based on analysis and transition adjustment calculations, the effect of IFRS 2 amendment to the equity at the end of 2017 was EUR +1,5 million, to non - interest bearing liabilities EUR -5,3 million and to deferred assets EUR -3,8 million.

The relevant new IFRS standard that Konecranes has not yet adopted is the following:

IFRS 16 Leases replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC -27 Evaluating the Substance of Transactions Involving the Legal form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance lease under IAS17. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases (with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease terms. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (for example, a change in lease term or a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. The standard is effective for annual periods beginning on or after 1 January 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. Konecranes is using the general modified retrospective approach in which right of use assets and lease liabilities are calculated per transition date 1.1.2019 except for the lease contracts of the Finnish premises in Hyvinkää and Hämeenlinna, in which Konecranes uses modified retrospective method to calculate the right of use assets and liability from the commencement date but using the prevailing discount interest at the transition date. Konecranes elects also to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Group has various lease agreements for office equipment, vehicles and premises with varying terms and renewal rights. Group has used judgment especially for the use of extension options as well as when defining the lease term for open end lease agreements so that they are based on the business requirements and real estimated useful life time of the underlying asset. According to the analyses done in 2018 It is expected that the right of use assets will be increased approximately by EUR 118,5 million and corresponding liabilities by EUR 124.1 million after the standard is implemented 1.1.2019. Equity decreases by approximately EUR 5.7 million without deferred taxes. During 2019 other operating expenses is estimated to be decreased by EUR 34.0 million and depreciation increased by EUR 31.4 million and interests increased by EUR 3.3 million respectively.

3. Segment information

For management purposes, the Group is organized into business units based on its products and services and had three reportable segments in 2018, which it calls Business Areas: Business Area Service, Business Area Industrial Equipment and Business Area Port Solutions. In 2017 Business Area Equipment was divided to two new segments Business Area Industrial Equipment and Business Area Port Solutions. In addition Ports Service and Lift truck Service were transferred from Business Area Service to Business Area Port Solutions.

Business Area Service provides maintenance and installation services of industrial equipment, Business Area Industrial Equipment produces industrial cranes and their components to variety of industries and Business Area Port Solutions produces lifting equipment for ports and provides services for port equipment.

Some business units have been aggregated to form the above reportable operating segment due to the similar economic characteristics with respect to the nature of the production process, product type and class of customers for their products.

The above reportable segments are based on the Group's management reporting and organizational structure. Konecranes Group's chief operating decision maker is the Board of Directors.

Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements. However, the performance of the investees accounted for using the equity method is evaluated using proportionate consolidation.

The assets and liabilities of the reportable segments include only items directly connected with the business as well as the goodwill related to them. Taxes and financial income and expenses are managed on Group level and are not allocated to segments.

Konecranes reports also three geographical areas, which are the main market areas: EMEA (Europe, Middle East and Africa), AME (Americas) and APAC (Asia-Pacific). Sales are reported by the customer location and assets and capital expenditure by the location of the assets.

3.1. Operating segments

	Service		Industrial Equipment		Ports solutions		Corporate functions and unallocated items		Eliminations		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Sales												
Sales to external customers	1,144.3	1,137.8	1,009.2	1,035.0	1,002.4	963.8	0.1	0.6			**3,156.1**	**3,137.2**
Inter-segment sales	48.1	41.7	141.6	83.2	10.4	11.9	6.2	5.8	-206.3	-142.6	**0.0**	**0.0**
Total sales	1,192.5	1,179.5	1,150.9	1,118.2	1,012.9	975.7	6.2	6.4	-206.3	-142.6	**3,156.1**	**3,137.2**
Adjusted EBITA	180.0	161.3	42.6	34.6	71.3	44.8	-36.9	-29.5	0.1	5.5	**257.1**	**216.6**
% of net sales	15.1%	13.7%	3.7%	3.1%	7.0%	4.6%					**8.1%**	**6.9%**
Purchase price allocation amortization	-12.5	-12.9	-14.5	-14.7	-10.4	-10.9					**-37.5**	**-38.6**
Adjusted operating profit	167.5	148.3	28.0	19.9	60.9	33.9	-36.9	-29.5	0.1	5.5	**219.6**	**178.0**
% of net sales	14.0%	12.6%	2.4%	1.8%	6.0%	3.5%					**7.0%**	**5.7%**
Adjustments to operating profit												
Transaction costs							0.0	-4.9			**0.0**	**-4.9**
Restructuring costs	-4.8	-6.8	-12.9	-21.1	-20.9	-19.5	-14.8	-18.2			**-53.4**	**-65.6**
Release of MHPS purchase price allocation in inventories	0.0	-1.8	0.0	-2.8	0.0	-2.7	0.0	0.0			**0.0**	**-7.3**
Gain on disposal of Stahl CraneSystems							0.0	218.4			**0.0**	**218.4**
Total adjustments	-4.8	-8.7	-12.9	-23.8	-20.9	-22.2	-14.8	195.3			**-53.4**	**140.7**
Operating profit	162.8	139.7	15.1	-4.0	40.0	11.7	-51.7	165.8	0.1	5.5	**166.2**	**318.7**
% of net sales	13.6%	11.8%	1.3%	-0.4%	4.4%	1.2%					**5.3%**	**10.2%**
Share of associates and joint ventures result (note 16)							4.0	3.3			**4.0**	**3.3**
Financial income							2.6	39.8			**2.6**	**39.8**
Financial expenses							-34.1	-85.8			**-34.1**	**-85.8**
Profit before tax											**138.7**	**276.0**

3.1. Operating segments continued

	Service		Industrial Equipment		Ports solutions		Corporate functions and unallocated items		Eliminations		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Segment assets	1,284.8	1,287.1	865.1	880.4	884.4	840.6					**3,034.3**	**3,008.2**
Investment accounted for using the equity method (note 16)							71.0	69.8			**71.0**	**69.8**
Cash and cash equivalents							230.5	233.1			**230.5**	**233.1**
Deferred tax assets							119.5	118.3			**119.5**	**118.3**
Income tax receivables							22.3	20.9			**22.3**	**20.9**
Other unallocated and corporate function level assets							89.4	112.6			**89.4**	**112.6**
Total assets	**1,284.8**	**1,287.1**	**865.1**	**880.4**	**884.4**	**840.6**	**532.7**	**554.7**			**3,567.0**	**3,562.9**
Segment liabilities	207.7	204.5	365.0	336.5	411.4	398.1					**984.1**	**939.1**
Interest-bearing liabilities							776.4	758.6			**776.4**	**758.6**
Deferred tax liabilities							143.4	150.1			**143.4**	**150.1**
Income tax payables							20.3	57.0			**20.3**	**57.0**
Other unallocated and corporate function level liabilities							358.6	379.1			**358.6**	**379.1**
Total liabilities	**207.7**	**204.5**	**365.0**	**336.5**	**411.4**	**398.1**	**1,298.7**	**1,344.9**			**2,282.8**	**2,284.0**
Other disclosures												
Capital expenditure	8.5	11.3	19.7	14.4	7.2	10.0	0.0	0.0			**35.4**	**35.7**
Personnel	7,372	7,206	5,782	6,024	2,830	3,067	93	74			**16,077**	**16,371**

Revenue expected to be recognized in the future periods related to performance obligations that are unsatisfied or partially unsatisfied

	During 2019	During 2020	From 2021 onwards	Total
Service	209.0	5.1	0.2	**214.3**
Industrial Equipment	481.8	71.9	36.9	**590.6**
Port Solutions	735.3	175.2	0,0	**910.5**
Total	**1,426.1**	**252.1**	**37.2**	**1,715.4**

The transaction price associated with unsatisfied or partially unsatisfied performance obligations does not include variable consideration that is constrained. The Group total revenue will also include new orders, scope changes and contract extensions which are not known at reporting date and thus are excluded in this table.

3.2. Geographical areas

2018	EMEA*)	AME	APAC	Total
External sales*)	1,593.5	1,049.9	512.7	**3,156.1**
Assets*)	2,681.3	507.8	377.9	**3,567.0**
Capital expenditure	25.8	3.2	6.5	**35.4**
Personnel	10,027	3,172	2,878	**16,077**

*) External sales to Finland EUR 99.8 million. Non-current assets (excluding deferred tax assets) in Finland: EUR 212.3 million and in other countries: EUR 1,598.7 million.

2017	EMEA*)	AME	APAC	Total
External sales*)	1,633.7	980.9	522.7	**3,137.2**
Assets*)	2,682.0	480.2	400.7	**3,562.9**
Capital expenditure	32.2	1.2	2.3	**35.7**
Personnel	9,920	3,205	3,246	**16,371**

*) External sales to Finland EUR 105.6 million. Non-current assets (excluding deferred tax assets) in Finland: EUR 191.1 million and in other countries: EUR 1,700.1 million.

There are no single customers which have over 10% of Group's sales.

4. Acquisitions and divestments

Disposals in 2018

Konecranes divested in January, 2018 the Machine Tool Service business in USA. Konecranes received cash proceeds of EUR 1.1 million from the transaction and did not record any loss or profit from this disposal.

Acquisitions in 2017

Material Handling & Port Solutions segment acquisition from Terex Corporation

On May 16, 2016, Konecranes signed an agreement (the "Stock and Asset Purchase Agreement") to acquire from Terex Corporation ("Terex") its Material Handling & Port Solutions ("MHPS") segment (the "Acquisition") against consideration consisting of cash and shares. On January 4, 2017, Konecranes completed the Acquisition and paid EUR 795.8 million in cash and in 19.6 million newly issued Konecranes class B shares.

MHPS is a leading supplier of industrial cranes, crane components and services under the Demag brand, as well as port technology with a broad range of manual, semi-automated and automated solutions under several brands, such as Gottwald. According to unaudited special purpose carve-out financial information (USGAAP), the sales of MHPS were USD 1,418 million (EUR 1,280 million) and the adjusted EBITDA was USD 104 million (EUR 94 million) in 2016.

The fair values of the identifiable assets and liabilities of the acquired MHPS businesses at the date of Acquisition are summarized below. The purchase price consideration paid in cash includes the post-closing adjustments for cash, debt and working capital as well as the effect of the hedging of MHPS purchase price. The non-controlling interest is recognized at the non-controlling interest's proportionate share of the acquiree's net assets. The acquisition offers significant industrial and operational synergies such as scale benefits through procurement volumes, optimization in operations and SG&A, a better capacity utilization and scale benefits in our R&D capacity, which are reflected in Goodwill.

EUR million	Fair value
Intangible assets	
Clientele	245.0
Technology	104.1
Trademark	227.6
Other intangible assets	11.1
Property, plant and equipment	175.4
Investments accounted for using the equity method	63.2
Inventories	283.3
Accounts receivable	224.3
Other assets	112.5
Cash and cash equivalents	62.6
Total assets	**1,509.1**
Non-controlling interest	24.6
Deferred tax liabilities	151.0
Defined benefit plans	241.0
Other long-term liabilities	10.5
Accounts payable and other current liabilities	429.5
Total liabilities	**856.6**

EUR million	Fair value
Net assets	**652.6**
Purchase consideration transferred	**1,482.0**
Goodwill	**829.5**

Cash flow on acquisition	
Purchase consideration, paid in cash	795.8
Transactions costs*)	69.1
Cash and cash equivalents in acquired companies	-62.6
Net cash flow arising on acquisition	**802.3**

Purchase consideration:	
Purchase consideration, paid in cash	795.8
Purchase consideration, paid in shares	686.2
Total purchase consideration	**1,482.0**

*) Transaction costs of EUR 4.9 million in 2017, EUR 47.0 million in 2016 and EUR 17.2 million in 2015 have been expensed and are included in other operating expenses.

As MHPS was acquired on January 4th, 2017 the full year sales of acquiree were EUR 1,204.5 million and EBIT (including restructuring costs) EUR 70.1 million. The amount of goodwill that is expected to be deductible for tax purposes was EUR 45,6 million.

Disposals in 2017

Disposal of Stahl CraneSystems

On November 30, 2016 Konecranes signed an agreement with Columbus McKinnon Corporation ("Columbus McKinnon") regarding the divestment of the STAHL CraneSystems business ("STAHL Divestment"). On January 31, 2017, Konecranes completed the STAHL Divestment. Konecranes received cash proceeds of EUR 232.2 million from the transaction. Additionally, Columbus McKinnon assumed unfunded pension liabilities that were at EUR 67 million as of December 31, 2016. Konecranes reported a pre-tax capital gain of EUR 218.4 million from the STAHL Divestment in 2017 in other operating income.

STAHL CraneSystems is a global supplier of hoisting technology and crane components. The business is well-known for its capability to build engineered system solutions. Its customers include distributors, crane builders as well as EPC companies. STAHL CraneSystems is headquartered in Künzelsau, Germany.

Other disposals

Konecranes agreed on March 7, 2017 to divest Sanma Hoists & Cranes Co., Ltd. ("Sanma") to Jingjiang Hongcheng Crane Components Manufacturing Works. The agreement included Sanma's manufacturing machinery for CD/MD hoists and related inventory. Konecranes reported a pre-tax capital gain of EUR 0.1 million in 2017 in other operating income. With this divestment, Konecranes streamlined its product and brand portfolio in Chinese market.

On December 21, 2017, Konecranes divested Morris Middle East Ltd, including the 49-percent shareholding in Eastern Morris Cranes Ltd held by the company, to Columbus McKinnon Corporation. The transaction was related to the earlier divestiture of Stahl CraneSystems. Konecranes received cash proceeds of EUR 2.8 million from the transaction and did not record any loss or profit from this disposal.

5. Disaggregation of revenue in net sales

Customer contract revenue	2018	2017
Sale of goods	2,075.9	2,082.2
Rendering of services	1,077.5	1,052.5
Total customer contract revenue	3,153.3	3,134.7
Other revenue		
Leasing of own products	2.3	2.2
Royalties	0.4	0.3
Total other revenue	2.7	2.5
Total net sales	**3,156.1**	**3,137.2**

Timing of satisfying performance obligations by Segments	2018 At a point of time	2018 Over time	2018 Total	2017 At a point of time	2017 Over time	2017 Total
Service	170.0	974.3	**1,144.3**	184.4	953.4	**1,137.8**
Industrial Equipment	876.9	132.3	**1,009.2**	913.6	121.4	**1,035.0**
Port Solutions	746.3	256.2	**1,002.4**	755.6	208.2	**963.8**
Corporate functions	0.1	0,0	**0.1**	0.6	0,0	**0.6**
Total	**1,793.2**	**1,362.8**	**3,156.1**	**1,854.1**	**1,283.1**	**3,137.2**

6. Contract balances

6.1. Contract assets and liabilities

	2018	2017
Contract assets		
The cumulative revenues of non-delivered projects	433.2	389.6
Advances received netted	317.5	310.9
Total	**115.7**	**78.7**
Transfers to receivables from contract assets recognized at the beginning of period	194.0	426.6
Contract liabilities		
Gross advance received from percentage of completion method	375.3	395.9
Advances received netted	317.5	310.9
Total	**57.8**	**85.0**
Revenue recognized in the current period that was included in the contract liability opening balance	190.4	138.5
Increases due to cash received	295.9	352.5

Contract assets relate to receivable arising from percentage of completion method. Net asset balances are balances where the sum of contract costs, recognized profits and recognized losses exceed progress billings. Where progress billings exceed the sum of contract costs, recognized profits and recognized losses these liabilities are included in the line item contract liabilities.

6.2. Advances received

	2018	2017
Advance received from percentage of completion method (netted)	57.8	85.0
Other advance received from customers	283.6	214.8
Total	**341.4**	**299.8**

7. Operating expenses

	2018	2017
Change in work in progress	-52.7	-18.6
Production for own use	-0.5	-0.6
Material and supplies	1,106.0	1,167.8
Subcontracting	319.1	261.0
Materials, supplies and subcontracting	1,371.9	1,409.5
Wages and salaries	804.3	799.5
Pension costs	65.1	71.8
Other personnel expenses	137.1	132.9
Personnel cost	1,006.5	1,004.2
Other operating expenses	498.0	515.0
Total operating expenses	**2,876.3**	**2,928.7**

Research and development costs recognized as an expense in other operating expenses amount to EUR 42.1 million in the year 2018 (EUR 36.0 million in 2017).

7.1. Audit and non-audit fees to Group auditor

	2018	2017
Audit	3.8	4.2
Non-audit services	0.4	0.6
Total	**4.2**	**4.8**

8. Personnel expenses and number of personnel

8.1. Personnel expenses

	2018	2017
Wages and salaries	804.3	799.5
Pension costs: Defined benefit plans	11.8	11.1
Pension costs: Defined contribution plans	53.3	60.7
Other personnel expenses	137.1	132.9
Total	**1,006.5**	**1,004.2**

8.2. Average personnel

	2018	2017
Average number of personnel	16,247	15,519
Number of personnel as at December 31	16,077	16,371
Number of personnel as at December 31 in Finland	1,880	1,814

8.3. Personnel by Reportable Segment at the end of period

	2018	2017
Service	7,372	7,206
Industrial Equipment	5,782	6,024
Port Solutions	2,830	3,067
Group Staff	93	74
Total	**16,077**	**16,371**

9. Depreciation, amortization and impairments

9.1. Depreciation and amortization

	2018	2017
Intangible assets	59.6	60.3
Buildings	7.8	9.0
Machinery and equipment	38.7	41.5
Total	**106.1**	**110.8**

9.2. Impairments

	2018	2017
Property, plant and equipment	13.8	3.8
Intangible assets	0,0	2.4
Total	**13.8**	**6.2**

The nature of the impairments is described in the disclosures of goodwill, intangible assets and property, plant and equipment (see notes 14 and 15).

10. Financial income and expenses

10.1. Financial income

	2018	2017
Interest income on bank deposits and loans	1.7	3.9
Fair value gain on derivative financial instruments	0.0	29.9
Exchange rate gains	0.8	0.0
Other financial income	0.0	6.1
Total	**2.6**	**39.8**

10.2. Financial expenses

	2018	2017
Interest expenses on liabilities	23.7	35.2
Net loss on financial instruments at fair value through profit or loss	6.0	0.0
Exchange rate loss	0.0	23.8
Other financial expenses	4.4	26.8
Total	**34.1**	**85.8**
Financial income and expenses net	**-31.5**	**-46.0**

The company applies hedge accounting on derivatives used to hedge cash flows in certain large crane projects as well as to the USD nominated purchase price of MHPS acquisition in 2017. The cash flow hedges of the expected future cash flows are assessed to be highly effective and a net unrealized effect of EUR -10.7 million (2017: EUR 10.8 million) with deferred taxes of EUR +2.7 million (2017: EUR -2.7 million) relating to the hedging instruments is included in equity. The hedged operative cash flows are expected to occur during the next 3–18 months while the hedged cash flow for the MHPS acquisition occurred in January 2017. The realized and recycled currency differences from these hedges recorded in the statement of income were EUR 4.7 million in 2018 (EUR -1.1 million in 2017).

11. Income taxes

11.1. Taxes in statement of income

	2018	2017
Local income taxes of group companies	49.0	68.0
Taxes from previous years	-4.4	-1.0
Change in deferred taxes	-4.3	-16.4
Total	**40.4**	**50.6**

11.2. Reconciliation of income before taxes with total income taxes

	2018	2017
Profit before taxes	138.7	276.0
Tax calculated at the domestic corporation tax rate of 20.0% (2017: 20.0%)	27.7	55.1
Effect of different tax rates of foreign subsidiaries	6.1	27.3
Taxes from previous years	-4.4	-1.0
Tax effect of non-deductible expenses and tax-exempt income	5.4	-53.1
Tax effect of unrecognized tax losses of the current year	9.5	10.4
Tax effect of utilization of previously unrecognized tax losses	-1.6	-2.2
Tax effect of recognition of previously unrecognized tax losses	-0.7	-0.8
Tax effect of impairment of previously recognized deferred tax assets	-0.3	-0.2
Tax effect of recognizing the controlled temporary difference from investment in subsidiaries	1.1	3.7
Tax effect of tax rate change	0.3	11.8
Other items	-2.8	-0.4
Total	**40.4**	**50.6**
Effective tax rate %	**29.1%**	**18.3%**

Effect of different tax rates of foreign subsidiaries in 2017 includes the calculatory tax from STAHL divestment and the tax effect of non-deductible expenses and tax-exempt income includes the adjustment of tax-free portion of STAHL divestment.

The Company evaluates regularly the net realizable value of its deferred tax assets.

A new tax legislation came into effect in the USA, which includes, among other things, a reduction in the U.S. federal corporate income tax rate from 35 percent to 21 percent from the beginning of the tax year 2018 and one-time tax expense for undistributed profits on overseas assets for US companies. The changes are recognized in the balance sheet as deferred taxes and a corresponding tax expense in the income statement as change in deferred taxes in 2017.

11.3. Tax effects of components in other comprehensive income

	2018	2017
Cash flow hedges	2.7	1.1
Re-measurement gains (losses) on defined benefit plans	-0.2	0.7
Total	**2.5**	**1.7**

12. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding during the year for the dilutive effect of the shares issued under the stock option plans. Weighted average number of shares is excluding the number of treasury shares.

	2018	2017
Net profit attributable to shareholders of the parent company	101.8	226.1
Weighted average number of shares outstanding (1,000 pcs)	78,811	78,273
Weighted average number of shares outstanding, diluted (1,000 pcs)	78,811	78,273
Earnings per share, basic (EUR)	1.29	2.89
Earnings per share, diluted (EUR)	1.29	2.89

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements.

13. Goodwill and goodwill impairment testing

13.1. Goodwill

	2018	2017
Acquisition costs as of January 1	920.0	100.9
Additions	0.0	829.5
Decrease	0.0	-1.0
Translation difference	0.8	-9.4
Acquisition costs as of December 31	920.8	920.0
Accumulated impairments as of January 1	-14.7	-14.7
Impairments for the financial year	0.0	0.0
Total as of December 31	**906.1**	**905.3**

13.2. General principles

Management monitors the performance of the Group through the monthly meetings and monthly reporting that take place on a business unit level. Impairment testing is done at the lowest level of the Group at which goodwill is monitored internally.

13.3. Total goodwill in reportable segments after impairments

	2018	2017
Industrial Cranes	139.7	140.6
Agilon	3.9	3.9
Goodwill in Industrial Equipment total	**143.6**	**144.5**
Industrial Crane Service	558.3	558.0
Machine Tool Service	4.1	4.1
Goodwill in Service total	**562.4**	**562.1**
Port Cranes	163.4	161.4
Lift trucks	36.8	37.2
Goodwill in Port Solutions total	**200.1**	**198.6**
Total goodwill in reportable segments as of December 31	**906.1**	**905.3**

The recoverable amounts of the CGUs are determined based on value in use calculations using the discounted cash flow method. The forecasting period of cash flows is five years and it is based on financial forecasts of the management responsible for that CGU, and adjusted by Group management if needed. The forecasts have been made based on the CGU specific historical data, order book, the current market situation and industry specific information of the future growth possibilities. These assumptions are reviewed annually as part of management's budgeting and strategic planning cycles. Calculations are prepared during the fourth quarter of the year.

The discount rate applied to cash flow projections is the weighted average (pre-tax) cost of capital and is based on risk-free long term government bond rates and market and industry specific risk premiums. These risk premiums are derived based on the business portfolio of companies which operate in a similar industry.

The key assumptions, being the average compound annual growth rate for the sales of the five years forecasted and the discount rate are as follows:

	Compound annual growth rate	Discount rate
Industrial Cranes	3%	13.9%
Agilon	48%	16.7%
Industrial Crane Service	7%	14.0%
Machine Tool Service	3%	11.7%
Lift trucks	5%	12.1%
Port Cranes	7%	12.6%

The average compound growth rate for the gross profit is consistent with that of sales. Furthermore for all the CGUs a 1% terminal growth rate has been applied.

Impairment charges

The impairment testing performed in 2018 and 2017 did not result in any impairments being recognized.

Sensitivity analyses

In addition to impairment testing using the base case assumptions, four separate sensitivity analyses were performed for each CGU

1) A discount rate analysis where the discount rate was increased by 5% points
2) A Group management adjustment to the future profitability. The cash flow of each CGU was analyzed by the Group management. Based on the CGU specific historical data and future growth prospects the cash flows were decreased by 10% in each year including terminal year.
3) A higher discount rate (+5% points) analysis combined with lower (-10%) cash flows as mentioned above.
4) A decrease in the compound annual growth rate for the sales for each of the five forecasted years (- 2% points) combined with the current discount rate.

2018

There was no indication of impairment of goodwill for any CGU from the sensitivity tests.

2017

The recoverable value of CGU Agilon was EUR 0.5 million higher than the carrying value of the assets under impairment testing. Sensitivity tests using both higher discount rate (+5% points) and lower cash flow estimates (-10%) indicated that the goodwill in Agilon would have been impaired by EUR 2.9 million. Sensitivity test for compound annual growth rate for the sales (-2% points) with the current discount rate indicated that the goodwill in Agilon would have been impaired by EUR 1.6 million. The recoverable amount of EUR 5.9 million of Agilon would be the same as the carrying amount if the discount rate would be 0.6% points higher, or if the present value of the cash flows would be 7.5% lower. The forecasts of Agilon include also a specific key assumption for a decrease of fixed costs. The recoverable amount of EUR 5.9 million of Agilon would be the same as the carrying amount if the EBITDA % would be 0.8% points lower. There was no indication of impairment of goodwill for any other CGU from the sensitivity tests.

14. Intangible assets

2018	Patents and trademarks	Software	Other	Intangible assets total
Acquisition costs as of January 1	245.2	160.3	465.5	871.0
Additions	0.0	8.6	0.2	8.8
Disposals	-0.2	-1.8	-2.0	-4.1
Transfer within assets	0.0	0.0	1.7	1.7
Impairment	0.0	0.0	0.0	0.0
Translation difference	0.0	0.0	0.0	0.0
Acquisition costs as of December 31	245.0	167.1	465.3	877.4
Accumulated amortization as of January 1	-14.9	-96.8	-126.0	-237.8
Translation difference	0.0	0.0	-0.1	-0.1
Accumulated amortization relating to disposals	0.2	1.7	0.1	2.1
Amortization for financial year	-0.6	-24.3	-34.7	-59.6
Total as of December 31	**229.8**	**47.7**	**304.5**	**582.0**

2017	Patents and trademarks	Software	Other	Intangible assets total
Acquisition costs as of January 1	19.1	141.0	122.1	282.3
Additions	0.0	19.5	0.1	19.6
Disposals	-1.2	-1.3	-12.0	-14.5
Business combinations	227.6	1.1	359.1	587.8
Transfer within assets	0.0	0.0	0.0	0.0
Impairment	0.0	0.0	-2.4	-2.4
Translation difference	-0.3	0.0	-1.4	-1.7
Acquisition costs as of December 31	245.2	160.3	465.5	871.0
Accumulated amortization as of January 1	-15.3	-74.6	-94.3	-184.2
Translation difference	0.0	0.0	0.4	0.4
Accumulated amortization relating to disposals	1.2	1.3	3.9	6.4
Amortization for financial year	-0.8	-23.4	-36.1	-60.3
Total as of December 31	**230.3**	**63.5**	**339.5**	**633.3**

The category Other consists mainly of customer lists and technology acquired in business combinations. They are stated at cost and amortized on a straight-line basis over their expected useful lives. The normal amortization period of intangible assets varies from 4 to 20 years. The amortization of intangible assets is included in the depreciation and impairments line in the consolidated statement of income. On December 31, 2018 and December 31, 2017, the intangible assets having indefinite useful life consisted of the Demag and Gottwald trademarks of EUR 167.0 million and EUR 51.0 million. As there is no foreseeable limit on the period over which the asset is expected to generate net cash inflows for the entity, it is classified as intangible assets having an indefinite useful life. The carrying amounts of these assets are tested on a yearly basis in connection with the goodwill impairment testing.

The addition of EUR 8.8 million (EUR 19.6 million in 2017) mainly consisted of capitalized development costs of the Group’s ERP systems.

Due to the reorganization of the business intangible assets of EUR 0.0 million were written off in 2018 (EUR 2.4 million in 2017).

15. Property, plant and equipment

2018	Land	Buildings	Machinery & Equipment	Property, plant and equipment total
Acquisition costs as of January 1	31.4	140.7	314.2	486.3
Additions	0.2	6.5	29.9	36.6
Disposals	-0.3	-0.8	-25.6	-26.7
Transfer within assets	0.0	-1.7	0.0	-1.7
Impairment	-0.7	-5.2	-7.9	-13.8
Translation difference	0.0	-0.5	0.4	0.0
Acquisition costs as of December 31	30.7	139.0	311.0	480.7
Accumulated depreciation as of January 1	0.0	-30.3	-185.7	-216.0
Translation difference	0.0	0.0	-0.1	-0.1
Accumulated depreciation relating to disposals	0.0	0.7	17.7	18.5
Depreciation for financial year	0.0	-7.8	-38.7	-46.5
Total as of December 31	**30.7**	**101.7**	**104.3**	**236.7**

2017	Land	Buildings	Machinery & Equipment	Property, plant and equipment total
Acquisition costs as of January 1	6.4	72.4	224.6	303.4
Additions	0.0	2.8	32.6	35.4
Disposals	-0.3	-0.8	-13.9	-15.0
Business combinations	26.0	69.2	79.0	174.2
Transfer within assets	0.0	0.8	-0.7	0.0
Impairment	0.0	-0.3	-3.5	-3.8
Translation difference	-0.7	-3.3	-4.0	-8.0
Acquisition costs as of December 31	31.4	140.7	314.2	486.3
Accumulated depreciation as of January 1	0.0	-21.4	-154.0	-175.3
Translation difference	0.0	0.1	0.3	0.3
Accumulated depreciation relating to disposals	0.0	0.0	9.5	9.5
Depreciation for financial year	0.0	-9.0	-41.5	-50.5
Total as of December 31	**31.4**	**110.4**	**128.5**	**270.4**

There were no buildings capitalized under finance lease at the end of year 2018 and 2017.

The carrying amount of machinery and equipment under finance lease as of December 31, 2018 is EUR 20.2 million (EUR 22.1 million in 2017).

Mainly due to the restructuring actions of the Group during the year land, buildings, machinery and equipment were written off in 2018 by EUR 13.8 million (EUR 3.8 million in 2017).

16. Interests in other entities and non-controlling interests

16.1. Investments accounted for using the equity method

Associated Companies	**2018**	**2017**
Acquisition costs as of January 1	1.8	0.9
Share of associated companies' result after taxes	-0.1	0.2
Dividends received	-0.1	0.0
Acquisitions	0.0	0.8
Total as of December 31	**1.7**	**1.8**

Joint Ventures	**2018**	**2017**
Acquisition costs as of January 1	68.0	8.0
Share of joint ventures' result after taxes*)	4.1	3.1
Disposals	0.0	-2.8
Dividends received	-2.8	-2.7
Acquisitions	0.0	62.5
Total as of December 31	**69.3**	**68.0**

*) Including adjustments from purchase price allocation.

16.2. Investments in Associated Companies and Joint Ventures

The following table illustrates the summarized financial information of the Group's investments and reconciliation with the carrying amount of the investments in consolidated financial statements.

2018	**Carrying amount of the investment**	**Non-current assets*)**	**Current assets*)**	**Non-current liabilities*)**	**Current liabilities*)**	**Revenue*)**	**Profit/loss after tax from continuing operations*)**	**Total comprehensive income*)**	**Dividends received**
MHE-Demag (S) Pte Ltd Group (joint venture)	64.8	32.0	125.1	4.1	69.8	177.1	9.2	9.2	2.6
Other Investments in associated companies and joint ventures	6.2	3.5	39.5	0.1	22.3	52.2	-0.6	-0.6	0.3
Total	**71.0**	**35.5**	**164.5**	**4.3**	**92.0**	**229.3**	**8.6**	**8.6**	**2.8**

2017	**Carrying amount of the investment**	**Non-current assets*)**	**Current assets*)**	**Non-current liabilities*)**	**Current liabilities*)**	**Revenue*)**	**Profit/loss after tax from continuing operations*)**	**Total comprehensive income*)**	**Dividends received**
MHE-Demag (S) Pte Ltd Group (joint venture)	62.8	30.1	109.5	1.3	56.8	165.0	6.0	6.0	2.5
Other Investments in associated companies and joint ventures	7.0	4.2	38.3	0.5	19.6	43.2	0.3	0.3	0.1
Total	**69.8**	**34.3**	**147.8**	**1.8**	**76.3**	**208.2**	**6.3**	**6.3**	**2.7**

*) Asset and liability values, revenue and profit/loss represent values according to the latest published financial information.

16.3. Joint operations

Konecranes has classified the interest in AS Konesko (domiciled in Estonia) as a joint operation based on the joint arrangement agreement. AS Konesko is a strategic supplier of components used in Konecranes products. Konecranes has the exclusive right to purchase certain motors and end carriages from AS Konesko at a price to be agreed upon with Konesko A/S. However Konecranes retains ownership of the current motor designs and the trademark rights to the end carriages.

Konecranes owns as of December 31, 2018 49.5% in AS Konesko.

Konecranes has recognized and accounted for the assets, liabilities, revenues and expenses relating to its interest in AS Konesko in accordance with IFRS11.

16.4. Subsidiaries with material non-controlling interest

2018	Accumulated non-controlling interest	Goodwill	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Profit/loss after tax from continuing operations	Total comprehensive income
Noell Cranes Systems (China) Ltd (NCI 30%)	5.6	0,0	15.3	28.1	0,0	28.1	49.7	-19.2	-19.2
Other non-controlling interests	12.6	0,0	51.2	45.5	2.5	54.2	34.5	8.1	8.1
Total	**18.2**	**0,0**	**66.5**	**73.6**	**2.5**	**82.3**	**84.2**	**-11.1**	**-11.1**

2017	Accumulated non-controlling interest	Goodwill	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Profit/loss after tax from continuing operations	Total comprehensive income
Noell Cranes Systems (China) Ltd (NCI 30%)	11.5	0,0	26.6	66.6	0,0	58.5	81.6	-5.6	-5.6
Other non-controlling interests	11.1	0,0	47.8	30.9	2.3	46.7	20.9	-0.6	-0.6
Total	**22.5**	**0,0**	**74.4**	**97.5**	**2.3**	**105.2**	**102.5**	**-6.2**	**-6.2**

NCI = Non-Controlling Interest. Assets and liabilities as well as revenue and profit/loss values represent the total company values including purchase price allocations. See also the company list for the ownership and principal place of business of the subsidiaries.

17. Deferred tax assets and liabilities

17.1. Deferred tax assets

	2018	2017
Employee benefits	44.6	42.9
Provisions	15.4	23.1
Unused tax losses	9.7	8.6
Other temporary differences	49.8	43.7
Total	**119.5**	**118.4**

Other temporary differences include timing differences arising for example from accrued costs, advances received and unrealized currency differences that are not deductible in taxation until they occur.

17.2. Deferred tax liabilities

	2018	2017
Intangible and tangible assets	131.7	141.8
Other temporary difference	11.7	8.3
Total	**143.4**	**150.1**

The deferred tax assets and deferred tax liabilities have been netted on a juridical company level when there is a legally enforceable right to offset income tax receivables against income tax payables related to income taxes levied by the same tax authority. The gross amount of deferred tax assets in 2018 were EUR 119.5 million (EUR 118.4 million in 2017) and deferred tax liabilities EUR 143,4 million (EUR 150.1 million in 2017).

Konecranes has not recognized the temporary differences in investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

A new tax legislation came into effect in the USA, which includes, among other things, a reduction in the U.S. federal corporate income tax rate from 35 percent to 21 percent from the beginning of the tax year 2018 and one-time tax expense for undistributed profits on overseas assets for US companies. The change in tax rate reduced Konecranes' deferred tax assets by EUR 11.6 million in financial year 2017. The impact of tax expense for undistributed profits on overseas assets for Konecranes Group was EUR 2.9 million in financial year 2017.

17.3. Tax losses carried forward

At the end of year 2018, Konecranes recorded a deferred tax asset of EUR 9.7 million (EUR 8.6 million in 2017) related to unused tax losses on the carry-forward losses of EUR 230.9 million (EUR 221.2 million in 2017) in total. The tax losses, for which no deferred tax assets are recognized due to the uncertainty of the utilization of the losses, amounted to EUR 185.0 million in the year 2018 (EUR 181.9 million in 2017).

EUR 110.1 million of these carry-forward tax losses available have unlimited expiry, EUR 54.2 million expire later than in five years and EUR 66.6 million expire in five years.

Part of carry-forward losses relates to Morris Material Handling, Inc., USA, which was acquired in 2006. The overall carry-forward losses of Morris Material Handling, Inc. amounted to EUR 31.1 million (EUR 31.3 million in 2017). The Group has recorded a deferred tax asset amounting to EUR 5.4 million (EUR 5.1 million in 2017) of Morris Material Handling, Inc. based on the tax losses estimated to be utilized during the years 2019–2028 amounting to EUR 23.9 million. For the amount of EUR 7.2 million tax loss carry-forwards deductible over the period 2029–2031 no deferred tax asset has been recognized due to uncertainties and limitations on deductible annual amounts.

To assess if the convincing evidence threshold per IAS12 was met Konecranes has prepared tax forecasts for future periods in which it has given effect to the restructuring done and the tax planning opportunities that were being implemented at that time. The taxable income in these forecasts has led management to recognize the deferred tax assets for The Netherlands and Austria.

Tax losses carried forward and related deferred tax assets on December 31 by the most significant countries as following:

2018	**Tax losses carried forward**	**Potential deferred tax assets**	**Deferred tax assets not recorded**	**Deferred tax assets**
France	37.9	11.0	11.0	0.0
USA	37.1	7.5	1.7	5.7
India	35.2	9.1	9.1	0.0
China	31.6	7.9	6.8	1.1
Austria	23.7	5.9	4.8	1.2
Japan	10.0	3.1	3.1	0.0
Italy	8.0	1.9	1.9	0.0
Spain	6.1	1.5	1.1	0.5
The Netherlands	6.1	1.5	0.4	1.2
Brazil	5.8	2.0	2.0	0.0
Other	29.5	7.0	6.9	0.1
Total	**230.9**	**58.4**	**48.6**	**9.7**

2017	**Tax losses carried forward**	**Potential deferred tax assets**	**Deferred tax assets ot recorded**	**Deferred tax assets**
France	36.2	12.1	12.1	0.0
USA	34.2	7.1	1.9	5.2
India	37.6	12.2	12.2	0.0
China	22.4	5.5	5.5	0.0
Austria	22.3	5.6	4.3	1.2
Japan	9.3	2.9	2.9	0.0
Italy	8.6	2.4	2.4	0.0
Spain	7.9	2.0	1.2	0.8
The Netherlands	5.2	1.3	0.1	1.2
Brazil	6.8	2.3	2.3	0.0
Other	30.7	7.7	7.5	0.2
Total	**221.2**	**61.0**	**52.4**	**8.6**

18. Inventories

	2018	2017
Raw materials and semi-manufactured goods	248.3	196.5
Work in progress	336.6	284.1
Finished goods	33.4	44.3
Advance payments	17.5	20.6
Total	**635.8**	**545.5**

2018	Balance at the beginning of the year	Translation difference	Business combinations	Utilized during the period	Provision not needed	Additions	Balance at the end of the year
Provision for obsolete inventory	67.4	0.1	0.0	21.6	3.0	6.8	**49.8**

2017	Balance at the beginning of the year	Translation difference	Business combinations	Utilized during the period	Provision not needed	Additions	Balance at the end of the year
Provision for obsolete inventory	23.7	-1.5	45.0	12.6	3.4	16.2	**67.4**

19. Ageing analysis of accounts receivable

	2018 Accounts receivable	2018 Including impairment of	2017 Accounts receivable	2017 Including impairment of
Not overdue	363.4	0.6	364.8	0.5
1–30 days overdue	89.6	0.5	85.7	0.6
31–60 days overdue	34.1	0.4	29.5	0.3
61–90 days overdue	23.7	0.6	21.3	0.3
more than 91 days overdue	37.1	24.7	36.6	23.5
Total	**548.0**	**26.8**	**537.8**	**25.2**

The carrying amount of accounts receivable approximates to their fair value. Accounts receivable are subject to only minor credit risk concentrations due to the Group's extensively diversified customer portfolio. Credit losses recognized from the customer contracts for the financial year totaled EUR 4.5 million (EUR 4.1 million in 2017).

2018	Balance at the beginning of the year	Translation difference	IFRS 9 adjustment	Utilized during the period	Provision not needed	Additions	Balance at the end of the year
Provision for doubtful accounts (Impairment)	25.2	-1.2	1.2	4.5	5.4	11.3	**26.8**

2017	Balance at the beginning of the year	Translation difference	Business combinations	Utilized during the period	Provision not needed	Additions	Balance at the end of the year
Provision for doubtful accounts (Impairment)	18.0	-1.1	7.3	4.1	7.8	13.0	**25.2**

The release of the provision for doubtful accounts relates to the cash received from individual receivables which were historically provided for due to management's uncertainty of their collectability.

20. Other receivables

	2018	2017
Notes receivable	5.9	7.8
Value added tax	23.3	35.7
Total	**29.1**	**43.4**

21. Deferred assets

	2018	2017
Interest	1.7	1.7
Prepaid expenses	15.2	16.0
Unbilled revenue	2.5	0.8
Other	26.8	37.6
Total	**46.2**	**56.2**

22. Cash and cash equivalents

	2018	2017
Short-term deposits	5.1	9.9
Cash in hand and at bank	225.4	223.1
Total	**230.5**	**233.1**

Short-term deposits have a maturity of three months or less. Cash and cash equivalents are carried at nominal value, which corresponds to their fair value.

23. Equity

23.1. Shareholders' equity

	Number of shares	Number of treasury shares
As of January 1, 2017	58,751,009	4,521,333
Share issue	19,600,000	0
Cancellation of treasury shares	0	-3,950,436
Share subscriptions with share awards	405,136	-405,136
As of December 31 2017	**78,756,145**	**165,761**
Share subscriptions with share awards	60,358	-60,358
As of December 31 2018	**78,816,503**	**105,403**

The total shareholders' equity consists of share capital, share premium, paid in capital, cash flow hedges, translation difference, and retained earnings. Consistent with local legislation Konecranes' share has no nominal value. Due to the MHPS acquisition in January 2017 in which part of the acquisition price was paid by issuing 19,600,000 new class B shares to Terex, which were later converted to A shares at the time Terex sold them. All issued shares are fully paid and listed on Nasdaq Helsinki.

Share premium includes the value of shares, which exceeds the accounting par value of the shares, for shares issued before September 1, 2006. Cash flow hedges include changes in the fair values of derivative financial instruments used to hedge operational cash flows. Translation differences comprise the differences arising from translating non-euro functional currency entities to euro, which is the Group's presentation currency. Other reserve includes the credit for equity settled share-based payment cost. The paid in capital includes the portion of shares' subscription price, which is not recorded to share capital or to liabilities according to IFRS. The paid in capital includes also other capital contributions to the Group, which are not recorded to some other reserve within the equity. The paid in capital includes also the possible amount of share capital decrease, which is not netted against accumulated losses or is not distributed to shareholders.

Dividend proposal per share was for 2018 1.20 euro and dividend for 2017 was 1.20 euro.

23.2. Distributable earnings

See page 70 Board of Director's Pr oposal to the Annual General Meeting.

24. Provisions

2018	Warranty	Restruc- turing	Pension commit- ments	Other	Total
Total provisions as of January 1	53.4	53.6	7.7	37.6	152.3
Translation difference	0.0	0.2	0.3	0.0	0.5
Additional provision in the period	32.3	18.1	1.7	14.0	66.1
Utilization of provision	16.9	34.4	2.9	15.7	70.0
Unused amounts reversed	7.4	2.0	0.0	5.8	15.2
Total provisions as of December 31	**61.3**	**35.5**	**6.8**	**30.1**	**133.8**

2017	Warranty	Restruc- turing	Pension commit- ments	Other	Total
Total provisions as of January 1	31.1	5.6	8.3	12.6	57.6
Translation difference	-0.4	-0.2	-0.9	-1.0	-2.5
Increase through business combination	14.9	44.8	0.1	16.4	76.3
Additional provision in the period	33.3	34.9	1.6	24.0	93.7
Utilization of provision	22.0	22.2	1.2	11.1	56.5
Unused amounts reversed	3.6	9.2	0.1	3.3	16.3
Total provisions as of December 31	**53.4**	**53.6**	**7.7**	**37.6**	**152.3**

The provision for warranties covers the expenses due to the repair or replacement of products during their warranty period. The warranty liability is based on historical realized warranty costs for deliveries of standard products and services. The usual warranty period is 12 months. For more complex contracts, mainly including long-term projects, the warranty reserve is calculated contract by contract and the warranty period can be significantly longer. The restructuring provision is recognized when the Group has prepared a detailed reorganization plan and begun implementation of the plan or announced the matter. Pension commitments include provisions for local pension schemes.

Other provisions include provisions for claims, litigations and provisions for loss contracts in which the amount is not provided for as part of work in progress or percentage of completion receivable of the loss-making project.

Restructuring costs

Konecranes has recorded EUR 53.4 million restructuring costs during 2018 (EUR 65.6 million in 2017) of which EUR 13.8 million has been impairment of assets (EUR 5.8 million in 2017).

25. Current liabilities

25.1. Accruals

	2018	2017
Wages, salaries and personnel expenses	114.2	98.7
Pension costs	7.0	7.7
Interest	11.5	10.1
Other items	39.8	35.0
Total	**172.5**	**151.6**

25.2. Other current liabilities (non-interest bearing)

	2018	2017
Value added tax	16.2	24.0
Payroll tax liability	16.8	15.6
Other short-term liabilities	10.0	11.0
Total	**43.0**	**50.6**

26. Lease liabilities

26.1. Finance leases

	2018	2017
Minimum lease payments		
within 1 year	8.2	8.3
1–5 years	12.8	12.3
over 5 years	0.1	2.9
Total	**21.1**	**23.5**
Present value of finance lease		
within 1 year	8.0	8.1
1–5 years	12.1	12.1
over 5 years	0.1	2.2
Total	**20.1**	**22.4**

Konecranes has finance leases mainly for vehicles with an average of four years leasing time.

27. Interest-bearing liabilities

27.1. Non-current

	2018	2017
Loans from financial institutions	321.0	335.3
Bonds	248.8	248.4
Finance lease liabilities	12.1	14.3
Other long-term loans	2.7	2.7
Total	**584.6**	**600.8**

27.2. Current

	2018	2017
Loans from financial institutions	22.5	20.7
Finance lease liabilities	8.0	8.1
Commercial papers	154.0	100.0
Other short-term loans	0,0	3.8
Overdraft	7.3	25.4
Total	**191.8**	**157.9**

On January 4, 2017, Konecranes raised loans of EUR 1,052 million related to the MHPS Acquisition. This included a syndicated EUR 300 million term loan with a tenor of three years, EUR 600 million amortizing term loan with a tenor of five years and a EUR 152 million bridge term loan. Upon completion of the STAHL CraneSystems divestment on January 31, 2017, Konecranes repaid in advance term loans of EUR 198 million including the full repayment of the bridge term loan.

In the course of 2017 Konecranes refinanced and repaid the acquisition related term loans fully. On April 4th, Konecranes repaid the acquisition related three-year loan by EUR 100 million utilizing cash at hand. On June 7th Konecranes repaid the acquisition related five-year loan by EUR 150 million utilizing cash at hand. On June 9th Konecranes issued a five-year bond of EUR 250 million which proceeds were fully utilized for repaying the three-year loan of EUR 200 million and the five-year loan for EUR 50 million. On November 17th Konecranes raised EUR 150 million Schuldschein loan and on 22 November Konecranes raised a five-year EUR 150 million bilateral term loan. The proceeds from the Schuldschein loan and bilateral term loan were utilized for fully repaying the acquisition related five-year EUR 600 million term loan.

At the end of December 2018, the outstanding long-term loans were: EUR 150 million five-year term loan, EUR 36 million for the R&D loan, EUR 150 million for the Schuldschein loan and EUR 250 million for the bond. The Schuldschein loan contains floating and fixed rate tranches with maturities of four and seven years. The term loan and the R&D loan bear a floating six months interest period and the bond yield is fixed with annual coupon payment. The weighted average interest rate for these loans and the bond is currently 1.36% per annum. The company is in compliance with the quarterly monitored financial covenant (interest-bearing net debt/equity) for the loans. No specific securities have been given for the loans. The Company continues to have healthy Interest-bearing net debt/equity ratio of 42.5% (31.12.2017: 41.1%) which is in compliance with the bank covenants the Company has to comply with.

In addition, the Group has certain revolving facilities the details of which can be found in Note 33.3.

The average interest rate of the non-current liabilities portfolio at December 31, 2018 was 1.41% (2017: 1.42%) and that of the current liabilities portfolio was 0.62% (2017: 1.78%). The effective interest rate for EUR-loans varied between 0.18%–6.00% (2017: 0.01 %–6.00%).

27.3. Maturity tables of financial liabilities and liquidity risk

The following table reflects the maturity of interest bearing liabilities.

2018

Currency	Avg. duration	Avg. rate %	Maturity Less than 1 year	1–5 years	Over 5 years	Amount MEUR
EUR	3.0 years	1.13	170.3	496.2	79.4	746.0
INR	1.5 years	9.00	0.0	0.0	0.0	0.0
CNY	0.3 years	5.46	3.9	0.0	0.0	3.9
USD	1.1 years	2.58	16.1	8.6	0.0	24.7
Others	0.2–1.4 years	3.80–8.09	1.6	0.3	0.0	1.9
Total		**1.22**	**191.8**	**505.1**	**79.5**	**776.5**

2017

Currency	Avg. duration	Avg. rate %	Maturity Less than 1 year	1–5 years	Over 5 years	Amount MEUR
EUR	4.0 years	1.24	120.8	363.0	226.4	710.2
INR	0.7 years	8.81	16.1	0.0	0.0	16.1
CNY	0.2 years	3.93	4.8	0.0	0.0	4.8
USD	1.2 years	2.78	14.3	11.0	0.0	25.3
Others	0.3–0.9 years	3.10–8.20	1.8	0.4	0.0	2.2
Total		**1.49**	**157.9**	**374.3**	**226.4**	**758.6**

27.3b Liquidity risk, containing undiscounted cash flows of non-derivative financial liabilities by currency

The following table reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognized financial liabilities, excluding derivatives. The amounts disclosed are undiscounted net cash outflows for the respective upcoming fiscal years, based on the earliest date on which Konecranes could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on the conditions existing at December 31.

2018

Currency	Avg. duration	Avg. rate %	Maturity Less than 1 year	1–5 years	Over 5 years	Amount MEUR
EUR	3.0 years	3.01	178.4	520.4	77.9	776.7
INR	1.5 years	9.00	1.0	6.0	0.0	7.0
CNY	0.2 years	5.46	3.9	0.0	0.0	3.9
USD	1.1 years	2.58	16.7	9.0	0.0	25.6
Others	0.9–2.0 years	2.0–9.5	1.7	0.3	0.0	2.0
Total debt		**1.22**	**201.7**	**535.6**	**77.9**	**815.2**
Other financial liabilities			254.0	1.3	0.0	255.4
Total financial liabilities			**455.8**	**537.0**	**77.9**	**1,070.6**

2017

Currency	Avg. duration	Avg. rate %	Maturity Less than 1 year	1–5 years	Over 5 years	Amount MEUR
EUR	4.0 years	1.24	129.2	391.3	229.0	749.5
INR	0.7 years	8.81	17.0	0.0	0.0	17.0
CNY	0.1 years	3.93	4.9	0.0	0.0	4.9
USD	1.2 years	2.78	14.9	11.4	0.0	26.3
Others	0.7–1.5 years	1.5–9.5	2.0	0.4	0.0	2.4
Total debt		**1.49**	**168.0**	**403.1**	**229.0**	**800.1**
Other financial liabilities			251.0	6.3	0.0	257.3
Total financial liabilities			**419.0**	**409.4**	**229.0**	**1,057.4**

27.4. Maturity profile of the Group's financial liabilities

The following table reflects the maturity of all financial liabilities.

2018		Maturity of financial liabilities		
Liability type	**Amount drawn**	**Less than 1 year**	**1–5 years**	**Over 5 years**
Loans from financial institutions	343.5	22.5	242.0	79.0
Bonds	248.8	0.0	248.8	0.0
Finance lease liabilities	20.1	8.0	12.1	0.0
Commercial paper program	154.0	154.0	0.0	0.0
Other long-term debt and short-term loans	2.7	0.0	0.0	2.7
Overdraft	7.3	7.3	0.0	0.0
Derivative financial instruments	7.7	7.7	0.0	0.0
Account and other payables	255.4	254.0	1.3	0.0
Total	**1,039.4**	**453.5**	**504.1**	**81.7**

2017		Maturity of financial liabilities		
Liability type	**Amount drawn**	**Less than 1 year**	**1–5 years**	**Over 5 years**
Loans from financial institutions	356.0	20.7	108.9	226.4
Bonds	248.4	0.0	248.4	0.0
Finance lease liabilities	22.4	8.1	14.3	0.0
Commercial paper program	100.0	100.0	0.0	0.0
Other long-term debt and short-term loans	6.4	3.8	0.0	2.7
Overdraft	25.4	25.4	0.0	0.0
Derivative financial instruments	6.8	6.8	0.0	0.0
Account and other payables	257.3	251.0	6.3	0.0
Total	**1,022.8**	**415.7**	**378.0**	**229.1**

27.5. Change in Group's liabilities arising from financing activities

2018	**Non-current interest bearing loans**	**Non-current finance leases**	**Current interest bearing loans**	**Current finance leases**	**Financial derivatives**	**Total**
Total liabilities as of January 1	586.5	14.3	149.7	8.1	6.8	765.5
Cash flows	-14.5	0.0	34.6	-10.4	0.0	9.8
Acquisitions and disposals	0.0	0.5	-0.6	0.3	0.0	0.2
Change in fair values	0.0	0.0	0.0	0.0	0.8	0.8
New leases	0.0	7.3	0.0	0.0	0.0	7.3
Other	0.5	-10.0	0.0	10.0	0.0	0.5
Total as of December 31	**572.5**	**12.1**	**183.8**	**8.0**	**7.7**	**784.1**

2017	**Non-current interest bearing loans**	**Non-current finance leases**	**Current interest bearing loans**	**Current finance leases**	**Financial derivatives**	**Total**
Total liabilities as of January 1	50.7	3.5	267.3	2.2	18.2	341.9
Cash flows	551.8	0.0	-140.5	-2.3	0.0	409.0
Acquisitions and disposals	0.0	0.0	23.7	0.0	0.0	23.7
Foreign exchange movement	0.0	0.0	-3.9	0.0	0.0	-3.9
Change in fair values	0.0	0.0	0.0	0.0	-11.3	-11.3
New leases	0.0	19.0	0.0	0.0	0.0	19.0
Other	-16.1	-8.3	3.2	8.3	0.0	-12.9
Total as of December 31	**586.5**	**14.3**	**149.7**	**8.1**	**6.8**	**765.5**

28. Other long-term liabilities

	2018	2017
Employee benefits	263.1	268.0
Other non-interest-bearing long-term liabilities	6.0	10.7
Total	**269.1**	**278.7**

28.1. Employee benefits

The Company and most of its subsidiaries offer retirement plans which cover the majority of employees in the Group. Many of these plans are defined contribution, where Konecranes' contribution and resulting charge is fixed at a set level or is a set percentage of employees' pay. However the Group has a significant defined benefit pension plan in the United Kingdom, Germany and Switzerland as well as individually insignificant plans in other countries. Companies in many countries have also other long term employee benefits such as part time pension benefits and jubilee benefits which are reported as defined benefit plans.

The UK defined benefit plan is administered by an independent trustee company that is legally separated from the Group. The investments are managed by a professional and independent Fiduciary Manager who is appointed by the trustees. The Fiduciary Manager appoints Investment Managers as they see fit in order to achieve the Trustees' stated objectives for the scheme funding level and taking into account the agreed risk appetite. The Fiduciary Manager has trigger points set in conjunction with the Trustees which when reached allows them to make changes to the investments to repatriate the gains to achieve full funding position. The UK plan is subject to the UK's pensions legislation, is regulated by the UK Pensions Regulator and is exempt from most UK taxation through its registered status. The UK plan was closed to new members in 2005. Under the UK plan the employees are entitled to post-retirement installments calculated as an average annual basic salary from the best three years within the last ten years. The net liability in the United Kingdom was EUR 0.0 million (EUR 0.0 million in 2017).

In Germany the defined benefit pension plans are direct pension promises which are unfunded and administered by a service provider. The payments to plan participants start after retirement or in case of disability or death. Benefits are based on the number of years worked and the final salary. The commencement of pension payments depends on the beginning of the state-pension, which is the earliest at age 63 in case of early retirement and otherwise 65 for old age pension. The biggest defined benefit pension plan in Germany is the Mannesmann Leistungsordnung (MLO), which is closed to new employees. The monthly pension benefit provided by this plan is calculated as the ratio Individual pay/Average pay, times the years of service, times 3.07, and has to be at least equal to 2.10 times the years of service. The net liability in Germany was EUR 231.7 million (EUR 236.1 million in 2017) of which the MLO plan was EUR 146.0 million (EUR 148.1 million in 2017).

The Swiss pension plans are administered via pension funds, which are legally separated from the Group. The board of Trustees of the pension funds are equally composed of representatives of both the employer and employees. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets and the administration and financing of the benefits. The plans function in and comply with a large regulatory framework and comply with the local minimum funding requirements. The plans are open to new members. Both the Company and employees pay contributions to fund the plans. The pension plans qualify as defined benefit plan for IFRS purposes, because accruals are by law subject to a minimum guaranteed rate of return and the plan has to guarantee a certain legal minimum level of benefits. There is hence a risk that the Company may have to pay additional contributions. Under the plans, participants are also insured against the financial consequences of old age, disability and death. The net liability in Switzerland was EUR 7.0 million (EUR 6.8 million in 2017) of which the pension plan was EUR 6.7 million (EUR 6.5 million in 2017).

The defined benefit plans typically expose the Company to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk. The investment risk is being mitigated by investing the funds both to equity and debt instruments.

The following tables summarize the components of net benefit expense recognized in the statement of profit or loss and the funded status and amounts recognized in the balance sheet for the respective plans:

28.2. Amounts recognized in the balance sheet

	2018	2017
Present value of obligation wholly unfunded	257.5	262.8
Present value of obligation wholly or partly funded	90.0	99.6
Defined benefit plan obligations	347.5	362.4
Fair value of plan assets	-84.4	-94.5
Total net liability recognized	**263.1**	**268.0**

28.3. Components of defined benefit plan recorded in comprehensive income

	2018	2017
Service cost:		
Current service cost	5.4	6.8
Net interest cost	4.1	4.5
Past service cost	2.2	-0.2
Components of defined benefit plan costs recorded in profit or loss	**11.8**	**11.1**
Remeasurement on the net defined benefit liability:		
The return on plan assets (excluding amounts included in the net interest expense) gains (-)/losses (+)	8.4	-1.2
Actuarial gains (-)/losses (+) arising from changes in demographic assumptions	0.2	-0.7
Actuarial gains (-)/losses (+) arising from changes in financial assumptions	-9.3	3.0
Components of defined benefit plan costs recorded in other comprehensive income	**-0.7**	**1.1**
Total (income (-)/expense (+))	**11.0**	**12.2**

The actuarial gains/losses in 2018 and 2017 were mainly caused by the change of discount rates in the defined benefit plans of Germany, Switzerland and the United Kingdom.

28.4. Movements of the present value of defined benefit obligation

	2018	2017
Obligation as of January 1	362.4	105.7
Translation difference	0.5	-6.2
Business combinations	0.0	267.2
Reclassification of pension liabilities	0.3	-0.1
Settlements and curtailments	0.0	-0.1
Current service cost	5.7	6.9
Interest cost	6.0	6.4
Past service cost	2.2	-0.2
Actuarial gains (-)/losses (+) arising from changes in demographic assumptions	0.2	-0.7
Actuarial gains (-)/losses (+) arising from changes in financial assumptions	-9.3	3.0
Benefits paid (-)	-20.5	-19.5
Obligation as of December 31	**347.5**	**362.4**

Movements of the fair value of plan assets

	2018	2017
Fair value of plan assets as of January 1	94.4	72.6
Translation difference	0.6	-5.0
Business combinations	0.0	26.2
Reclassification of plan assets	0.0	0.7
Interest income	1.9	1.9
Employee contributions	0.5	0.6
Employer contributions	1.7	3.0
The return on plan assets (excluding amounts included in the net interest expense)	-8.4	1.2
Benefits paid (-)	-6.3	-6.8
Fair value of plan assets as of December 31	**84.4**	**94.4**

28.5. Major categories of plan assets at the end of the reporting period

	2018	2017
Equity instruments	21.3	32.5
Debt instruments	48.2	50.9
Insurances	0.9	1.0
Real estate	9.8	8.4
Others	4.2	1.6
Total plan assets	**84.4**	**94.4**

The plan assets do not contain any Konecranes shares or assets.

Virtually all equity and debt instruments have quoted prices in active markets. The plan assets originate from the United Kingdom, Switzerland, Germany and India. It is the policy of the UK fund to invest approximately 40–50% to growth assets such as equity instruments as well as property and growth funds and 50–60% to risk reducing assets such as corporate bonds and fixed or index-linked gilts. The Swiss pension funds have a policy of investing their assets approximately for 40–60% in Swiss bonds, about 15–35% in equities, and 15–25% in Swiss property and mortgage loans. There is almost no exposure to alternative investments. The Company can only indirectly and partially determine the asset allocation through the 50/50 employer/employee representation in the board of Trustees. The actual return on plan assets was EUR -6.5 million (2017: EUR 3.0 million).

28.6. Defined benefit plan: the main actuarial assumptions

With the objective of presenting the assets and liabilities of the defined benefit plans at their fair value on the balance sheet, assumptions under IAS 19 are set by reference to market conditions at the valuation date. Qualified independent actuaries have updated the actuarial valuations under IAS 19 of the major defined benefit schemes operated by the Group to 31 December 2018. The assumptions used by the actuaries are chosen from a range of possible actuarial assumptions which, due to the long-term nature of the schemes, may not necessarily be borne out in practice. The actuarial assumptions used to calculate the benefit liabilities therefore vary according to the country in which the plan is situated. The following table shows the assumptions, weighted by liabilities, used to value the principal defined benefit plans.

	2018	2017
Germany		
Discount rate %	1.68	1.58
Expected development of salaries %	2.36	2.36
Expected development of pensions %	1.67	1.65
Mortality table: Richttafeln 2018 G von Klaus Heubeck		
UK		
Discount rate %	2.90	2.50
Expected development of pensions %	3.10	3.10
Mortality table: SAPS base table of S2PA, applied at year of birth, and CMI 2017 (2017: CMI 2014) projections with a long term improvement parameter of 1.5% (2017: 1.5%) per annum.		
Switzerland		
Discount rate %	0.80	0.60
Expected development of salaries %	1.00	1.00
Mortality table: BVG 2015 Generational and improvement factors CMI LTR 1.5%.		
Other		
Discount rate %	1.33–13.00	1.04–12.00
Expected development of salaries %	0.93–9.20	0.89–8.50
Expected development of pensions %	1.60–6.50	1.62–6.00

The below table shows the % effect of a change in the significant actuarial assumptions used to determine the retirement benefits obligations in our main defined benefit pension obligation countries. The effect shows the increase or decrease in the liability. In the calculation of the sensitivity of the discount rate any effect from the return of plan assets has been ignored.

Sensitivity analysis	Increase	Decrease
0.5% points change in the discount rate	-6.9%	7.8%
0.5% points change in the expected development of salaries	0.4%	-0.4%
0.5% points change in the expected development of pensions	5.5%	-5.0%

The sensitivity analyses above have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period and may not be representative of the actual change. It is based on a change in the key assumption while holding all other assumptions constant. A linear extrapolation of these amounts based on alternative changes in the assumptions as well as an addition of combined changes in the individual assumptions is not possible.

There are no changes in the way the sensitivity analyses were performed compared to the previous years.

The average duration of the defined benefit obligation weighted by the present value of the defined benefit obligation is 15 years (2017: 16 years).

The Group expects to contribute EUR 1.9 million to the above defined benefit pension plans in 2019 (Employer contribution).

29. Share based payments

Performance Share Plan

The Board of Directors of Konecranes Plc resolved in 2015 on a Performance share plan, which consisted of one three-year discretionary period. Earning during the three-year discretionary period beginning on 1 January, 2015 is based on the Konecranes Group’s cumulative EPS excluding restructuring costs and certain other one time items. The earned reward was paid in spring 2018.

The Board of Directors of Konecranes Plc resolved in 2016 to establish a share-based incentive plan directed to the Group key employees. The long-term incentive plan consists of one discretionary period, calendar year 2016. The reward from the plan is based on the continuation of a key employee´s employment or service and on the Konecranes Group’s adjusted earnings before interest, taxes, depreciation and amortization (EBITDA). The rewards to be paid on the basis of the plan correspond to an approximate maximum total of 700,000 Konecranes Plc shares including also the proportion to be paid in cash. The reward from the plan has been paid after the discretionary period at the end of August 2017 partly in Konecranes shares and partly in cash to be used for taxes and tax-related costs arising from the reward to the key employees. The shares paid as reward may not be transferred during a restriction period established for the shares. The restriction period begun from reward payment and has ended on December 31, 2018.

The Board of Directors of Konecranes Plc has resolved in 2017 to establish a long-term incentive plans for the Group key employees and the President and CEO. The new share-based incentive plans are a Performance Share Plan 2017 for the Group key employees, a Restricted Share Unit Plan 2017 for selected Group key employees and a Performance Share Plan 2017–2021 for the President and CEO. The potential rewards from the incentive plans will be paid partly in Konecranes Plc shares and partly in cash to be used for taxes and tax-related costs after the performance periods or vesting periods. As a rule, no reward will be paid if a plan participant’s employment or service ends before the reward payment. The Performance Share Plan includes three performance periods, calendar years 2017–2019, 2018–2020 and 2019–2021. The Board of Directors will resolve on the performance criteria and on the required performance levels for each criterion at the beginning of each performance period.

During the performance period 2017–2019, the plan offers the key employees a possibility to earn reward based on achieving the required performance levels based on the Konecranes Group’s cumulative adjusted Earnings per Share (EPS) during the financial years 2017–2019. Adjustments to the EPS include defined restructuring costs, transaction costs related to the MHPS acquisition, purchase price allocation amortization and other unusual items reported as adjustments by the company. The adjusted EPS includes the gain on the disposal of STAHL CraneSystems. The rewards to be paid on the basis of the performance period 2017–2019 correspond to an approximate maximum total of 880,000 Konecranes Plc shares including also the proportion to be paid in cash. The plan is directed to approximately 260 key employees, including the members of the Group Executive Board and the Senior Management during the performance period 2017–2019. The Board of Directors will be entitled to reduce the rewards payable on the basis of the performance period 2017–2019 if certain reward value cap is reached.

The Board of Directors resolved that the performance criterion for the discretionary period 2018–2020 is the cumulative adjusted Earnings per Share (EPS) of the financial years 2018–2020. Adjustments to the EPS include defined restructuring costs, purchase price allocation amortization and certain other unusual items.

The target group of the plan consists of a maximum of 280 people during the discretionary period 2018–2020. The rewards to be paid on the basis of the discretionary period correspond to the value of a maximum total of 710,000 Konecranes Plc shares. If the target determined by the Board of Directors is attained, the reward payout may be a half of the maximum reward. The maximum reward payout requires that the target is clearly exceeded.

Restricted Share Unit Plan

The Restricted Share Unit Plan is directed to selected key employees in Konecranes. The vesting periods will last for 12 to 36 months. The prerequisite for reward payment is that a key employee’s employment or service continues until the end of the vesting period. The rewards to be allocated on the basis of the entire plan will amount to a maximum total of 200,000 Konecranes Plc class A shares including also the proportion to be paid in cash. Part of the restricted share unit plan (5,000 shares) was allocated during 2018.

Performance Share Plan 2017–2021 for the CEO

The CEO long-term incentive plan consists of one five-year performance period, calendar years 2017–2021. The potential reward from the CEO Plan will be based on the Konecranes Group’s cumulative adjusted Earnings per Share (EPS) during the financial years 2017–2019 and cumulative Earnings per Share (EPS) during the financial years 2020–2021. The rewards to be paid on the basis of the CEO Plan correspond to a maximum total of 200,000 Konecranes Plc shares including also the proportion to be paid in cash. However, the shares paid and to be paid as reward, on the basis of the performance periods of the Performance Share Plan 2017 and 2018, will be deducted from the payable reward. The CEO will have a possibility to earn a total of 48,000 Konecranes Plc shares including also the proportion to be paid in cash, on the basis of the first performance period 2017–2019 of the Performance Share Plan 2017 and similarly 39,000 shares of the Performance Share Plan 2018. The CEO will not be entitled to sell shares paid as reward through the Performance Share Plan 2017–2021 for the CEO or the Performance Share Plan 2017 until he owns Konecranes shares worth EUR 750,000 in total.

Ownership Obligations

A member of the Group Executive Board or the Senior Management must hold a minimum of 50 per cent of any net shares given on the basis of these plans, until the member's shareholding in the company in total corresponds to the value of the member's annual salary and the member's membership in the Group Executive Board or the Senior Management continues.

The fair value of the equity-settled portion of the share rights granted is estimated at the date of grant using a Monte-Carlo simulation model, taking into account the terms and conditions upon which the share rights were granted. The model simulates the TSR and compares it against the group of principal competitors. It takes into account historical and expected dividends, and the share price fluctuation covariance of the Group and its competitors to predict the distribution of relative share performance. Fair value of the cash-settled portion is measured at each reporting date using a binomial option pricing model taking into account the terms and conditions upon which the instruments were granted and the current likelihood of achieving the specified target.

Employee Share Savings Plan

The Group has launched an Employee Share Savings Plan (ESSP) in which each participant will receive one free matching share for every two acquired savings shares. Matching shares will be delivered to a participant if the participant holds the acquired shares from the plan until the end of the designated holding period. The matching shares will be paid in Konecranes shares and partly in cash. The expenses of the plan are recognized over the vesting period based on the quarterly acquired savings share amounts.

The fair value of the equity-settled portion of the share options granted is estimated at the date of grant using a binominal option pricing model, taking into account the terms and conditions upon which the share options were granted. Fair value of the cash-settled portion is measured at each reporting date using a binomial option pricing model taking into account the terms and conditions upon which the instruments were granted and the current likelihood of achieving the specified target.

29.1. Expenses for employee service

	2018	2017
Expense arising from equity-settled share-based payment transactions	19.1	5.0
Expense arising from cash-settled share-based payment transactions	0.8	8.6
Total expense arising from share-based payment transactions	**20.0**	**13.6**

The carrying amount of the liability arising from cash settled portion was EUR 1.3 million (2017: EUR 6.3 million).

29.2. Changes in the number of share rewards in Performance Share Plan

	2018 Number of shares	2017 Number of shares
As of January 1	1,605,000	1,878,000
Share rewards granted	675,100	1,018,000
Share rewards awarded*)	-98,838	-766,688
Share rewards expired	-489,162	-470,820
Share rewards forfeited	-14,750	-53,492
Total as of December 31	**1,677,350**	**1,605,000**

*) Performance Share Plan 2016 earning was 667,508 gross shares. Of this, 334,239 net shares were delivered in 2017. The delivered shares were under transfer restriction until 31 December 2018.

29.3. Changes in the number of share rewards in Employee Share Savings Plan

	2018 Number of shares	2017 Number of shares
Outstanding as of January 1	121,316	137,474
Share rewards granted	55,965	34,800
Share rewards awarded	-35,832	-41,691
Share rewards forfeited	-7,256	-9,267
Outstanding as of December 31	**134,193**	**121,316**

29.4. Assumptions made in determining the fair value of Performance Shares Plan

The fair value for the cash settled portion is remeasured at each reporting date until the possible share delivery. The fair value of the liability will thus change in accordance with the Konecranes Plc share price.

For the 2017–2019 vesting periods granted in 2017 and for the 2018–2020 vesting periods granted in 2018, the fair value for the equity settled portion is based on non market vesting condition (adjusted EPS) and for the 2016–2018 vesting periods granted in 2016 the fair value for the equity settled portion is based on non market vesting condition (EBITDA). The fair value for the equity settled portion based on non market vesting condition has been determined at grant using the fair value of Konecranes share as of the grant date and expected dividend yield.

	2018 plan	CEO LTI 2017 plan	2017 plan	2016 plan
Share price at grant, EUR	32.91	37.03	38.45	25.74
Share price at reporting period end 31.12., EUR	26.39	26.39	26.39	26.39
Expected volatility, %*)	27.0%	30.6%	33.7%	34.0%
Risk-free interest rate, %	0.0%	0.0%	0.0%	0.0%
Expected dividend per share, pa , EUR	1.1	1.1	1.0	1.0
Expected contractual life in years	2.7	4.9	2.7	2.4
Weighted average fair value of the share rewards at the grant date	29.55	32.70	35.64	24.75
Model used	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes

*) Expected volatility was determined by calculating the historical volatility of the Konecranes share using monthly observations over corresponding maturity.

30. Related party transactions

The related parties of Konecranes include subsidiaries (see Company list), associated companies, joint ventures and joint operations, pension fund in the United Kingdom and the key management personnel of the Group and major shareholders. The key management personnel of the Group is comprised of the Board of Directors, the CEO and the Group Executive Board.

30.1. Key Management compensation

Board of Directors

The remuneration packages for Board members are resolved by the Annual General Meeting (AGM) on proposal by the Nomination Committee. The AGM 2018 confirmed an annual fee of EUR 140,000 for the Chairman of the Board (2017: EUR 140,000), EUR 100,000 for the Vice Chairman of the Board (2017: EUR 100,000), and EUR 70,000 for other Board members (2017: EUR 70,000). In case the term of office of a Board member ends before the closing of the Annual General Meeting in 2019, he or she is entitled to the prorated amount of the annual remuneration calculated on the basis of his or her actual term in office. In addition, compensation of EUR 1,500 was approved per meeting for attendance at Board committee meetings (2017: EUR 1,500). However, the chairman of audit committee is entitled to a compensation of EUR 3,000 (2017: EUR 3,000) per meeting for attendance at audit committee meetings.

According to the proposal, 50% of the annual remuneration is to be used for acquiring shares in the company. The remuneration may also be paid by transferring treasury shares based on the authorization given to the board of directors by the general meeting. In case such purchase of shares cannot be carried out due to reasons related either to the company or to a board member, the annual remuneration shall be paid entirely in cash.

Travel expenses will be compensated against receipt.

Total compensation to the Board of Directors

2018	Number of shares as part of compensation	Value of compensation in shares, EUR	Compensation paid in cash, EUR	Total compensation, EUR
Chairman of the Board	1,506	52,500	105,500	158,000
Board members	5,114	177,500	373,500	551,000
Total	**6,620**	**230,000**	**479,000**	**709,000**

2017	Number of shares as part of compensation	Value of compensation in shares, EUR	Compensation paid in cash, EUR	Total compensation, EUR
Chairman of the Board	903	34,994	123,006	158,000
Board members	2,900	112,361	483,639	596,000
Total	**3,803**	**147,355**	**606,645**	**754,000**

Expense of statutory pension plans was EUR 0.1 million in 2018 (EUR 0.0 million in 2017).

President and CEO

The Human Resources Committee reviews the President and CEO's performance. Based on this review and relevant facts, the Board sets the total compensation package for the President and CEO.

	2018	2017
Salary and benefits, EUR	647,700	664,836
Annual variable pay, EUR	330,000	575,500
Total	**977,700**	**1,240,336**
Expense of statutory pension plans	129,936	184,438
Expense of voluntary pension plans	129,717	130,662
Total	**259,653**	**315,100**
Shareholding in Konecranes Plc (number of shares)*)	32,419	28,315
Performance share rights allocated (number of share rights)	200,000	248,000
Share-based payment costs, EUR	1,730,072	934,340
Retirement age	63 years	63 years
Period of notice	6 months	
Severance payment (including 6 months notice period)	18 months salary and fringe benefits	

*) Includes 24,000 shares, which were under transfer restriction until December 31, 2018.

Group Executive Board & Senior Management Team

In 2018 Konecranes had a two-tier operative management structure consisting of the Group Executive Board (GXB) and the Senior Management (SM). The GXB convenes as frequently as necessary, normally on a monthly basis. Business Areas have their own management teams that convene on a regular basis. Only the GXB is classified to key management personnel due to the decision making power.

The Group Executive Board consists of the following members:

- President and CEO
- Chief Financial Officer, Deputy CEO
- Executive Vice President, Business Area Service
- Executive Vice President, Industrial Equipment
- Executive Vice President, Port Solutions
- Executive Vice President, Technologies
- Executive Vice President, Marketing and Corporate Affairs
- Senior Vice President, Human Resources
- Senior Vice President, General Counsel

The Human Resources Committee of the Board will, based upon a recommendation by the President and CEO, make a proposal to the Board concerning the approval of the base compensation review and incentive levels for GXB members.

The retirement age of the Finnish members of the Group Executive Board (excluding the President and CEO) is set according to the Employees Pensions Act (TyEL). The Finnish members of the Group Executive Board also participate in the contribution-based group pension insurance scheme offered to key personnel in Finland. The defined contribution payment by the company is 1% of annual salary excluding performance based compensation (annual or long term incentives). The Finnish Group Executive Board members also have life insurance and disability insurances. Non-Finnish members have local insurances.

Group Executive Board excluding the President and CEO

	2018	2017
Salary and benefits, EUR	2,844,365	2,297,895
Annual variable pay, EUR	471,649	1,895,783
Total	**3,316,014**	**4,193,678**
Expense of statutory pension plans	280,157	439,853
Expense of voluntary pension plans	23,722	34,684
Total	**303,879**	**474,536**
Shareholding in Konecranes Plc (number of shares)*)	238,385	229,727
Performance share rights allocated (number of share right)	258,000	258,000
Share-based payment costs, EUR	3,225,016	2,157,687

*) Includes 60,000 shares, which were under transfer restriction until December 31, 2018.

There were no loans outstanding to the Group Executive Board at end of the period 2018 and 2017.

There were no guarantees on behalf of the Group Executive Board in year 2018 and 2017.

The employee benefits to the key management personnel of the Group were in total EUR 10.6 million in year 2018 (10.2 million in year 2017).

30.2. Transactions with associated companies and joint arrangements

	2018	2017
Sales of goods and services with associated companies and joint arrangements	47.1	37.7
Sales of goods and services with significant shareholders (Terex Corporation 4.1.–24.5.2017)	0.0	13.1
Receivables from associated companies and joint arrangements	8.9	11.1
Purchases of goods and services from associated companies and joint arrangements	50.5	45.7
Purchases of goods and services from significant shareholders (Terex Corporation 4.1.–24.5.2017)	0.0	0.7
Liabilities to associated companies and joint arrangements	8.7	4.3

Sales to and purchases from related parties are concluded using terms equivalent to arm's length transaction.

30.3. Transactions with Pension Fund in the United Kingdom

	2018	2017
Employer contributions	1.4	1.4

31. Guarantees, lease commitments and contingent liabilities

	2018	2017
For own commercial obligations		
Guarantees	619.2	499.7
Operating lease liabilities (note 31.1)	117.3	121.6
Other	33.4	19.8
Total	**769.9**	**641.0**

31.1. Operating leases

	2018	2017
Minimum lease payments		
within 1 year	39.8	39.8
1–5 years	70.6	49.6
over 5 years	6.9	32.2
Total	**117.3**	**121.6**
Operative rental expenses during the year	39.6	41.3

The Konecranes Group has major operating lease agreements of factory and office buildings in Hyvinkää and Hämeenlinna. Finland. They are valid for 10–12 years unless the lessee extends the lease period by five years. The lessee is entitled to exercise the 5–year extending option three consecutive times. The Group has various other operating leases for office equipment, vehicles and premises with varying terms and renewal rights. Leasing contracts comply with normal practices in the countries concerned.

From time to time Konecranes provides customers with guarantees that guarantee Company's obligations pursuant to the applicable customer contract. In sales of investment goods (machinery) the typical guarantees are the following:

- tender guarantees (bid bonds) given to the customer to secure the bidding process
- advance payment guarantees given to the customer to secure their down payment for project
- performance guarantees to secure customers over the Company's own performance in customer contracts, and
- warranty period guarantees to secure the correction of defects during the warranty period.

Contingent liabilities relating to litigation

Various legal actions, claims and other proceedings pend against the Group in various countries. These actions, claims and other proceedings are typical of this industry and consistent with a global business offering that encompasses a wide range of products and services. These matters involve contractual disputes, warranty claims, product liability (including design defects, manufacturing defects, failure to warn and asbestos legacy), employment, vehicles and other matters involving claims of general liability.

While the final outcome of these matters cannot be predicted with certainty, Konecranes has the opinion, based on the information available to date and considering the grounds presented for such claims, the available insurance coverage and the reserves made, that the outcome of such actions, claims and other proceedings, if unfavorable, would not have a material, adverse impact on the financial condition of the Group.

32. Financial assets and liabilities

32.1. Carrying amounts of financial assets and liabilities

	2018				2017			
Financial assets	**Fair value through OCI**	**Fair value through income statement**	**Amortized cost**	**Carrying amounts by balance sheet item**	**Fair value through OCI**	**Fair value through income statement**	**Amortized cost**	**Carrying amounts by balance sheet item**
Current financial assets								
Account and other receivables	0.0	0.0	577.2	577.2	0.0	0.0	581.5	581.5
Derivative financial instruments	5.8	3.1	0.0	8.9	17.1	20.6	0.0	37.7
Cash and cash equivalents	0.0	0.0	230.5	230.5	0.0	0.0	233.1	233.1
Total	**5.8**	**3.1**	**807.7**	**816.6**	**17.1**	**20.6**	**814.5**	**852.2**
Financial liabilities								
Non-current financial liabilities								
Interest-bearing liabilities	0.0	0.0	584.6	584.6	0.0	0.0	600.8	600.8
Other payables	0.0	0.0	5.9	5.9	0.0	0.0	10.5	10.5
Current financial liabilities								
Interest-bearing liabilities	0.0	0.0	191.8	191.8	0.0	0.0	157.9	157.9
Derivative financial instruments	4.1	3.6	0.0	7.7	5.8	1.0	0.0	6.8
Account and other payables	0.0	0.0	254.0	254.0	0.0	0.0	251.0	251.0
Total	**4.1**	**3.6**	**1,036.3**	**1,044.0**	**5.8**	**1.0**	**1,020.1**	**1,027.0**

Additional information on financial instruments is presented in Note 34.

32.2. Fair values

Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial assets and liabilities:

	Carrying amount		Fair value		
Financial assets	**2018**	**2017**	**2018**	**2017**	**Note**
Current financial assets					
Account and other receivables	577.2	581.5	577.2	581.5	19, 20
Derivative financial instruments	8.9	37.7	8.9	37.7	34.1
Cash and cash equivalents	230.5	233.1	230.5	233.1	22
Total	**816.6**	**852.2**	**816.6**	**852.2**	
Financial liabilities					
Non-current financial liabilities					
Interest-bearing liabilities	584.6	600.8	586.7	608.3	27.1
Derivative financial instruments	0.0	0.0	0.0	0.0	34.1
Other payables	5.9	10.5	5.9	10.5	
Current financial liabilities					
Interest-bearing liabilities	191.8	157.9	191.8	157.9	27.2
Derivative financial instruments	7.7	6.8	7.7	6.8	34.1
Account and other payables	254.0	251.0	254.0	251.0	25.2
Total	**1,044.0**	**1,027.0**	**1,046.1**	**1,034.6**	

The management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Long-term fixed-rate and variable-rate borrowings are evaluated by the Group based on parameters such as interest rates and the risk characteristics of the loan.

IFRS 7 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three-level hierarchy:

- Level 1 – quoted prices in active markets for identical financial instruments
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the financial instrument, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – inputs for the financial instrument that are not based on observable market data (unobservable inputs)

32.3. Hierarchy of fair values

The following table allocates financial assets and financial liabilities measured at fair value to the three levels of the fair value hierarchy.

	2018			2017		
Financial assets	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Derivative financial instruments						
Foreign exchange forward contracts	0.0	8.9	0.0	0.0	37.7	0.0
Total	**0.0**	**8.9**	**0.0**	**0.0**	**37.7**	**0.0**
Other financial assets						
Cash and cash equivalents	230.5	0.0	0.0	233.1	0.0	0.0
Total	**230.5**	**0.0**	**0.0**	**233.1**	**0.0**	**0.0**
Total financial assets	**230.5**	**8.9**	**0.0**	**233.1**	**37.7**	**0.0**
Financial liabilities						
Derivative financial instruments						
Foreign exchange forward contracts	0.0	7.7	0.0	0.0	6.7	0.0
Electricity forward contracts	0.0	0.0	0.0	0.0	0.1	0.0
Total	**0.0**	**7.7**	**0.0**	**0.0**	**6.8**	**0.0**
Other financial liabilities						
Interest bearing liabilities	0.0	776.4	0.0	0.0	758.6	0.0
Other payables	0.0	0.0	6.3	0.0	0.0	6.3
Total	**0.0**	**776.4**	**6.3**	**0.0**	**758.6**	**6.3**
Total financial liabilities	**0.0**	**784.1**	**6.3**	**0.0**	**765.5**	**6.3**

There were no significant changes in classification of fair value of financial assets and financial liabilities in the period 2017 to 2018. There were also no significant movements between the fair value hierarchy classifications.

The level 3 valuations in other payables are contingent consideration liabilities resulting from business combinations or the acquisition of non-controlling interest and the cash settled share based payment liability.

33. Management of financial risks

The nature of Konecranes' business and its global presence exposes it to a range of financial risks. These risks include (i) market risks, which include potential unfavorable changes in foreign exchange rates, interest rates and commodities (ii) liquidity risk and (iii) credit and counterparty risk.

33.1. Market risk

The responsibility of identifying, evaluating and controlling the financial risks arising from the Group's global business operations is divided between the business units and the Group Treasury. However, the Group uses an approach in which most of the management of financial risks is centralized to Konecranes' Group Treasury. The Group Treasury functions within the legal entity Konecranes Finance Corporation. By centralization and netting of internal foreign currency cash flows, the Group's external hedging needs can be minimized.

Konecranes Finance Corporation is not a profit center in the sense that it would pursue to maximize its profits. The Company aims to serve the operating companies of the Group in reducing their financial risks.

The Group's global business operations involve market risks in the form of currency, interest rate, commodity, credit and liquidity risks. The Group's objective is to increase the short-term stability of the financial environment for the business operations by reducing the negative effects caused by price fluctuations and other uncertainties in the financial markets.

Business units hedge their risks internally with the Group Treasury. As a result of this, most of the financial risks of the Group are concentrated into one company, Konecranes Finance Corporation, and can be evaluated and controlled in an efficient way.

Almost all funding, cash management and foreign exchange with banks and other external counterparties are centralized to and managed in Konecranes Finance Corporation in accordance with the Group's Treasury Policy. In a few special cases, when the local central bank regulation prohibits using group services in hedging and funding, this must be done directly between an operating company and a bank under the supervision of the Group Treasury.

Konecranes Finance Corporation uses a treasury system, which enables practically a real-time processing of transactions and in-depth records of activities and performance. The standard reporting is done on a weekly basis and it covers group-level commercial and financial cash flows, foreign currency transaction exposure, debt positions, portfolio of derivatives and counterparty credit exposure for financial transactions. In addition, all Group companies participate in the monthly managerial and statutory reporting.

Foreign exchange risk

The Group's global business operations generate foreign exchange risk. However, most of the business units only have transactions in their own currency, i.e. these units have their sales and costs as well as internal funding from Konecranes Finance Corporation in their local home currency. Only 20 out of some 130 Group companies operate regularly in a foreign currency. These companies hedge their foreign exchange risk with Group Treasury. Depending on the business area and the probability of the cash flows, the hedging covers operative cash flows for the next 1–24 months and is done by using internal foreign exchange forward contracts. In this way, Konecranes Finance Corporation can manage the foreign exchange risk of the whole Group. The foreign currency funding of the other Group companies and possibly some external foreign currency funding can net some of these foreign currency items. The residual net exposure can be covered with commercial banks using foreign exchange forward contracts or currency options. Currency derivatives belonging to hedge accounting are managed in a separate portfolio than derivatives hedging other commercial flows and funding and cannot thus be netted out against other internal items. These instruments are used when the hedging effect cannot be obtained through internal netting and matching of cash flows within the Group.

The business units' commercial bids in a foreign currency can be hedged by using currency options or exchange forwards, but, in general, using currency clauses covers the risk.

For certain large crane projects, the Group applies hedge accounting under IAS 39. Hedges are done by using foreign exchange forward contracts. Currently, only USD denominated projects are included in the hedge accounting. The hedge accounting portfolio comprises both USD sales and purchases where gross flows are hedged separately. At the end of 2018, the hedge accounting net cash flows totaled USD 331 million (USD 214 million in 2017).

The following table shows the transaction exposure of Konecranes Finance Corporation as of December 31, 2018, and December 31, 2017 (in EUR millions):

	2018	2017
AUD	25	5
BRL	2	1
CAD	22	8
CHF	-1	-2
CLP	1	0
CNY	-18	-3
CZK	-5	-6
DKK	-2	-2
GBP	10	-6
HUF	-1	0
JPY	1	3
NOK	2	1
PLN	-2	1
SEK	-158	-118
SGD	-3	-14
THB	3	3
USD	340	248
ZAR	1	0

The following table shows the translation exposure, which represents the equity of the Group in a local currency as of December 31, 2018, and December 31, 2017 (in EUR millions):

	2018	2017
AED	12	11
AUD	5	5
BRL	10	10
CAD	12	11
CHF	4	4
CLP	17	18
CNY	114	126
CZK	9	9
DKK	5	4
GBP	-22	20
HKD	0	-3
HUF	3	4
INR	13	7
IDR	-6	-5
JPY	-8	-8
KRW	0	-1
MAD	1	1
MXN	5	5
MYR	1	1
NOK	1	-3
PEN	4	4
PHP	1	1
PLN	5	5
RUB	5	6
SAR	5	12
SGD	19	13
SEK	-12	-17
THB	0	-1
UAH	-12	-14
USD	-14	-30
VND	-1	-1
ZAR	3	5

See Note 34 for the notional and fair values of derivative financial instruments.

Changes in currency rates can affect the profitability and equity of the Group. The US dollar has the biggest impact, as many of the large crane projects outside the United States are denominated in USD and because the Group has a lot of local business operations in the United States. A depreciation of the USD would have a negative impact.

The following table shows the theoretical effects that changes in the EUR/USD exchange rate would have on the Group's annual EBIT and equity. A decline of the average rate of US dollar against euro for 10 % increases EBIT by EUR 32.8 million (35.2 million in 2017) and decreases equity by EUR 1.5 million (3.5 million in 2017). The below table provides a sensitivity analysis over the past two years:

Change in EUR/USD rate	2018 EBIT	2018 Equity	2017 EBIT	2017 Equity
+10%	-26.8	+1.2	-28.8	+2.9
-10%	+32.8	-1.5	+35.2	-3.5

The EBIT effect comprises transaction exposure for euro-based companies having frequent sales in USD and the translation exposure from EBIT generated in USD translated into euros. The transaction position is estimated for 2018 as the USD positions changes from one year to another and these changes are mainly due to timing of major ports projects and currencies used in them. The estimate of the effects is based on the assumption that the USD denominated transactions are not hedged. In practice, however, all large projects with long maturities generating a substantial portion of the annual changes in the transaction position are hedged and subject to project specific pricing. The change in equity is the translation exposure on the Group's equity in USD.

Appreciating US dollar has a positive impact on Group's operating margin when it impacts the revenues and costs reported in euros asymmetrically. This is due to the fact that the exchange rate change impacts mostly both Group's revenues and costs and partly only either of these. If the EBIT generated in USD based entities as well as cash flows from long lasting projects, as they are subject to project specific pricing which in practice may be adjusted to reflect the currency rate changes, are excluded from the sensitivity analysis the effect on EBIT is estimated to be approximately a EUR 10 million increase (EUR 9 million in 2017) when the dollar appreciates 10 percent.

Interest rate risk

Changes in market interest rates have an impact on the Group's net interest expenses and the market value of interest rate derivatives. The objective for interest rate risk management is to reduce the volatility impact the market interest rate changes cause by optimizing the allocation between fixed and floating interest rates according to principles set in capital structure management.

Approximately 96% of the Group's interest-bearing liabilities are denominated in euro (94% in 2017). See note 27.3 for the currency split of outstanding debt.

The portion of the Group's long-term debt of total debt is related to the Group's gearing ratio. The higher the ratio is, the bigger the share of long term debt is of the total loan portfolio in line with principles set in the capital structure management. The interest rate risk related to long term loans may be hedged with interest rate derivatives such as interest rate swaps for which hedge accounting is applied. Other instruments that can be used for which no hedge accounting is applied are forward rate agreements, interest rate futures and interest rate options.

A change of one percentage point in interest rates in the Group's long-term debt portfolio would have the following effect on the Group's income statement and equity:

Change in interest rates	2018 Income statement	2018 Equity	2017 Income statement	2017 Equity
+1	-2.6	+0.0	-2.7	+0.0
-1	+0.1	-0.0	+0.1	-0.0

The effect on income statement is comprised of the Group's floating long-term debt which is recognized through the statement of income. The effect on equity is comprised of the changes in fair value of interest rate swaps which are hedging the debt portfolio. The effect of one percentage point decline is calculated with a 0% interest rate floor. The proportion of fixed interest loans in the loan portfolio can be increased by means of interest rate derivatives. As a consequence of this treasury policy, the Group's average interest rate level, in general, can be higher than the market level of short-term interest rates when low rates prevail and, on the other hand, lower than the market level when high rates prevail.

Commodity risk

By using electricity derivatives, the Group may reduce the negative effect caused by electricity price fluctuation. The overall importance of the energy price risk is small compared to other financial risks and cannot be described as significant.

See note 34 for the notional and fair values of derivative financial instruments.

Steel prices are fixed as a normal part of the procurement process. Price changes naturally affect the future procurement, but these changes can be taken into consideration in the price quotes to the end customers.

In large crane projects, the steel structures are sub-contracted and as a normal part of the sub-contracting process, the steel is included in the price of the sub-contracting (i.e. the price is fixed with the sub-contractor).

The Group can procure steel and steel components and thus may have an inventory of those. Market price fluctuation of steel can impact the profitability of customer projects or cause inventory obsolescence.

33.2. Credit and counterparty risks

Credit risk arises from the potential failure of a commercial counterparty to meet its commercial payment obligations. To limit this risk, the Group applies a conservative credit policy towards customers. It is Konecranes practice to review customers carefully before entering into formal business relationships and to require credit reports from new customers. Customer credit risks are mitigated with advance payments, letters of credits, payment guarantees and credit insurance where applicable. With these actions and careful monitoring of the customer payments credit risks can be mitigated.

The business units manage credit risks related to their commercial flows. There is currently no significant concentration of credit risk regarding the commercial activities, as the number of customers is high and their geographic distribution is wide. It is the Group's policy not to fund its customers beyond regular payment terms. See note 19 for a table of an aging analysis of accounts receivable. The theoretical maximum credit risk equals the carrying amount of all receivables.

Counterparty risk arises from the potential failure of a financial institution to meet its payment obligations regarding financial instruments. All credit risks related to other financial instruments than the regular accounts receivable are managed by Konecranes Group Treasury. There is no substantial concentration of credit risk regarding the financial instruments, since investments are rare and hedging instruments are done with a number of banks. Additionally, counterparties for financial instruments are limited to the core banks of the Group. These are all major banks with good credit ratings. The majority of all financial instruments are of short-term nature, with maturity of less than one year. There are no significant deposits or loans granted with external counterparties.

The Group has counterparty risk in form of cash holdings in several banks around the world. Despite the active cash management structures, the Group has in place, cash holdings globally with several banks are needed to ensure the liquidity of Group companies. The Group Treasury follows closely the exposure in the Group according to principles set out in the Treasury Policy and takes necessary actions for reducing the risk.

A credit risk is run on the financial assets of the Group, which consist of cash and cash equivalents, receivables and certain derivatives arising from default of the other party, with a maximum risk equal to the carrying amount of these instruments.

In regards of the possible Brexit related counterparty risk, The Group estimates the impact low as there are no outstanding derivatives traded with London based financial institutions. Financial risk impact of Brexit mainly relates to volatile Sterling which, however, is not substantial in the whole FX portfolio of the Group.

33.3. Liquidity risks

Liquidity risks concern the availability of liquid assets or funding. Lack of funding might jeopardize normal business operations and eventually might endanger the ability to fulfill daily payment obligations.

For managing the liquidity risks, the Group has established EUR 400 million committed revolving credit facility with an international loan syndication (2017–2024). At the end of 2018 the facility was unutilized. To cover the short-term funding needs, Konecranes Finance Corporation can borrow from institutional investors through domestic commercial paper program (totaling EUR 500 million). In addition, business units around the world have overdraft facilities totaling some EUR 170 million to cover the day-to-day funding needs.

It is the Group's policy under normal conditions to keep a minimum amount of cash in the balance sheet as deposits or any other liquid assets to maximize the return of capital employed. Cash and cash equivalents totalled EUR 230.5 million at the end of 2018 (EUR 233.1 million in 2017).

See note 27.3 for the maturity profile of the Group's financial liabilities.

33.4. Capital structure management

The primary objective of the Group's capital structure management is to ensure that it maintains a good credit status and a healthy capital ratio to support its business operations. At the same time, the Group also aims to maximize shareholder value by effective use of capital.

The Group manages its capital structure and fine-tunes it to adjust to probable changes in economic conditions. These actions may include adjusting the dividend payment to shareholders, buying back own shares or issuing new shares.

The Group monitors its capital structure using gearing ratio. This is calculated as a ratio of interest-bearing liabilities less liquid assets less loans receivable to total equity. At the end of 2018, the gearing ratio was 42.5% (41.1% in 2017).

The Group has a quantitative target for the capital structure in which the Interest-bearing net debt to equity ratio (gearing) should be below 80%.

The Group decides on the split between long-term and short-term debt in relation to the gearing ratio level. The following table shows the rough guidelines for the portion of long–term debt of total debt under different gearing ratio levels:

Gearing ratio level	Portion of long-term of total debt
Under 50%	Under 1/3
Between 50–80%	Between 1/3 and 2/3
Over 80%	Over 2/3

The Group monitors the gearing ratio level on a weekly basis. The target of the Group's capital management have been met in recent years.

34. Hedge activities and derivatives

Derivatives are initially recorded in the balance sheet at fair value and subsequently measured at fair value at each balance sheet date. All derivatives are carried as assets when fair value is positive and liabilities when fair value is negative. Derivative instruments that are not designated as hedges (hedge accounting) are measured at fair value, and the change in fair value is recognized in the consolidated statement of income. When the derivative is designated as a cash-flow hedge (hedge accounting) the effective part of the change in fair value is recognized in other comprehensive income. Any ineffective part is recognized in the consolidated statement of income. The foreign exchange forward contracts are measured based on the closing date's observable spot exchange rates and the quoted yield curves of the respective currencies. Interest rate swaps are measured based on present value of the cash flows, which are discounted based on the quoted yield curves.

34.1. Nominal and fair values of derivative financial instruments

	2018 Nominal value	2018 Fair value	2017 Nominal value	2017 Fair value
Foreign exchange forward contracts	1,224.2	1.2	1,006.1	31.0
Electricity forward contracts	0.0	0.0	0.5	-0.1
Total	**1,224.2**	**1.2**	**1,006.6**	**30.9**

See note 32.3 for the fair values of the derivatives recognized in assets and liabilities.

Derivatives not designated as hedging instruments

The Group enters into other foreign exchange and electricity forward contracts or currency options with the intention of reducing the risks of expected sales and purchases, these other contracts are not designated in hedge relationships and are measured at fair value through profit or loss.

Cash flow hedges

Foreign currency risk

Foreign exchange forward and option contracts measured at fair value through OCI are designated as hedging instruments in cash flow hedges of forecast sales and purchases in US dollar. These forecast transactions are highly probable, and they comprise about 51.8% of the Group's total hedged transaction flows. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates.

At the inception of these deals the Group assesses whether the critical terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. On a quarterly basis the Group performs qualitative effectiveness test by checking that the hedging instrument is linked on the relevant assets and liabilities, projected business transactions or binding contracts according to the hedging strategy and that there are no related credit risks. Hedge ineffectiveness is recognized through profit or loss.

The cash flow hedges of the expected future sales and purchases in 2018 and 2017 were assessed to be highly effective and a net unrealized loss, with a deferred tax asset relating to the hedging instruments, is included in OCI. The amounts recognized in OCI are shown in the table below and the reclassifications to profit or loss during the year are as shown in the consolidated statement of income.

34.2. Fair value reserve of cash flow hedges

	2018	2017
Balance as of January 1	10.8	15.0
Gains and losses deferred to equity (fair value reserve)	-13.4	-5.3
Change in deferred taxes	2.7	1.1
Balance as of December 31	**0.1**	**10.8**

Konecranes Group 2014–2018

		2018	2017	2016	2015	2014
Business development						
Orders received	MEUR	3,090.3	3,007.4	1,920.7	1,965.5	1,903.5
Order book	MEUR	1,715.4	1,535.8	1,038.0	1,036.5	979.5
Net sales	MEUR	3,156.1	3,137.2	2,118.4	2,126.2	2,011.4
of which outside Finland	MEUR	3,056.3	3,031.5	1,939.8	2,050.7	1,942.5
Export from Finland	MEUR	777.0	655.6	686.7	633.4	621.3
Personnel on average		16,247	15,519	11,398	11,934	11,920
Personnel on December 31		16,077	16,371	10,951	11,887	11,982
Capital expenditure	MEUR	35.4	35.7	33.8	49.3	60.0
as % of Net sales	%	1.1%	1.1%	1.6%	2.3%	3.0%
Research and development costs	MEUR	42.1	36.0	22.3	28.7	28.9
as % of Net sales	%	1.3%	1.1%	1.1%	1.4%	1.4%
Profitability						
Net sales	MEUR	3,156.1	3,137.2	2,118.4	2,126.2	2,011.4
Operating profit (including restructuring costs)	MEUR	166.2	318.7	84.9	63.0	115.8
as % of net sales	%	5.3%	10.2%	4.0%	3.0%	5.8%
Income before taxes	MEUR	138.7	276.0	62.1	55.4	107.4
as % of net sales	%	4.4%	8.8%	2.9%	2.6%	5.3%
Net income (incl. non-controlling interest)	MEUR	98.3	225.4	37.6	30.8	74.6
as % of net sales	%	3.1%	7.2%	1.8%	1.4%	3.7%

		2018	2017	2016	2015	2014
Key figures and balance sheet						
Equity (incl. non-controlling interest)	MEUR	1,284.1	1,278.9	445.5	456.0	449.2
Balance sheet	MEUR	3,567.0	3,562.9	1,529.9	1,484.9	1,477.4
Return on equity	%	7.7	26.1	8.3	6.8	16.7
Return on capital employed	%	7.9	23.7	10.3	9.5	17.0
Current ratio		1.3	1.3	1.1	1.1	1.3
Equity to asset ratio	%	39.8	39.2	32.9	34.8	35.2
Net working capital	MEUR	410.4	324.6	304.3	317.4	263.7
Interest-bearing net debt	MEUR	545.3	525.3	129.6	203.2	149.5
Interest-bearing net debt/Equity	%	42.5	41.1	29.1	44.6	33.3
Shares in figures						
Earnings per share, basic	EUR	1.29	2.89	0.64	0.53	1.28
Earnings per share, diluted	EUR	1.29	2.89	0.64	0.53	1.28
Equity per share	EUR	16.06	15.95	7.58	7.79	7.75
Cash flow per share	EUR	1.39	3.19	1.87	0.67	2.56
Dividend per share	EUR	1.20*)	1.20	1.05	1.05	1.05
Dividend/earnings	%	93.0	41.5	164.1	199.8	81.7
Effective dividend yield	%	4.5	3.1	3.1	4.6	4.4
Price/earnings		20.5	13.2	52.8	43.6	18.5
Trading low/high**)	EUR	25.05/42.43	31.52/42.64	17.92/36.89	20.98/34.98	18.63/27.60
Average share price**)	EUR	33.56	36.72	25.38	27.73	23.47
Share price on December 31**)	EUR	26.39	38.18	33.78	22.90	23.82
Year-end market capitalization	MEUR	2,080.0	3,006.9	1,984.6	1,345.0	1,380.2
Number traded***)	(1,000)	174,340	161,890	138,110	141,080	111,667
Stock turnover	%	221.2	205.6	235.1	240.2	192.7
Average number of shares outstanding, basic	(1,000)	78,811	78,273	58,748	58,542	57,909
Average number of shares outstanding, diluted	(1,000)	78,811	78,273	58,748	58,542	58,034
Number of shares outstanding, at end of the period	(1,000)	78,817	78,756	58,751	58,732	57,944

*) The Board's proposal to the AGM
**) Source: Nasdaq Helsinki
***) Source: Fidessa

Calculation of key figures

Return on equity (%):

$$\frac{\text{Net profit for the period}}{\text{Total equity (average during the period)}} \times 100$$

Return on capital employed (%):

$$\frac{\text{Income before taxes + interest paid + other financing cost}}{\text{Total amount of equity and liabilities - non-interest bearing debts (average during the period)}} \times 100$$

Current ratio:

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

Equity to asset ratio (%):

$$\frac{\text{Shareholders' equity}}{\text{Total amount of equity and liabilities - advance payment received}} \times 100$$

Interest-bearing net debt/Equity (%):

$$\frac{\text{Interest-bearing liabilities - liquid assets - loans receivable}}{\text{Total equity}} \times 100$$

Earnings per share:

$$\frac{\text{Net profit for the shareholders of the parent company}}{\text{Average number of shares outstanding}}$$

Earnings per share, diluted:

$$\frac{\text{Net profit for the shareholders of the parent company}}{\text{Average fully diluted number of shares outstanding}}$$

Equity per share:

$$\frac{\text{Equity attributable to the shareholders of the parent company}}{\text{Number of shares outstanding}}$$

Cash flow per share:

$$\frac{\text{Net cash flow from operating activities}}{\text{Average number of shares outstanding}}$$

Effective dividend yield (%):

$$\frac{\text{Dividend per share}}{\text{Share price at the end of financial year}} \times 100$$

Price per earnings:

$$\frac{\text{Share price at the end of financial year}}{\text{Earnings per share}}$$

Net working capital: Non interest-bearing current assets + deferred tax assets (excluding Purchase Price Allocation) - Non interest-bearing current liabilities - deferred tax liabilities (excluding Purchase Price Allocation) - provisions

Interest-bearing net debt: Interest-bearing liabilities (non current and current) - cash and cash equivalents - loans receivable (non current and current)

Year-end market capitalization: Number of shares outstanding multiplied by the share price at the end of year

Average number of personnel: Calculated as average of number of personnel in quarters

Number of shares outstanding: Total number of shares - treasury shares

Company list

(1,000 EUR)

Subsidiaries owned by the parent company		Book value of shares	Parent company's share, %	Group's share, %
Finland:	Konecranes Finance Oy	46,448	100	100
	Konecranes Finland Oy	17,163	26.02	100
	Konecranes Global Oy	102,391	100	100

Subsidiaries owned by the Group		Book value of shares	Group's share, %
Australia:	Konecranes Pty. Ltd.	181	100
Austria:	Konecranes and Demag Ges.m.b.H.	29,775	100
Bangladesh:	Konecranes and Demag (Bangladesh) Ltd.	102	100
Belgium:	S.A. Konecranes N.V.	6,150	100
Brazil:	Konecranes Demag Brasil Ltda.	32,688	100
Canada:	3016117 Nova Scotia ULC	0	100
	Hydramach ULC	0	100
	Kaverit Cranes and Service ULC	0	100
	Konecranes Canada Inc.	893	100
	MHE Canada ULC	0	100
	Overhead Crane Ltd.	0	100
Chile:	Konecranes Chile SpA	1	100
China:	Cranes and Parts Trading (Shanghai) Co., Ltd.	5,862	100
	Dalian Konecranes Company Ltd.	1,905	100
	Demag Cranes & Components (Shanghai) Co., Ltd.	36,204	100
	Demag Weihua (Liaoning) Material Handling Machinery Co., Ltd.	6,410	51
	Fantuzzi Group (Shanghai) Ltd.	0	100
	Konecranes (Shanghai) Co. Ltd.	0	100
	Konecranes (Shanghai) Company Ltd.	4,126	100
	Konecranes Manufacturing (Jiangsu) Co., Ltd.	27,351	100
	Konecranes Port Machinery (Shanghai) Co., Ltd.	7,085	100
	Noell Crane Systems (China), Ltd.	11,777	70
	SWF Krantechnik Co., Ltd.	650	100

Subsidiaries owned by the Group		Book value of shares	Group's share, %
Czech Republic:	Konecranes and Demag s.r.o.	2,823	100
Denmark:	Konecranes Demag A/S	13,591	100
Estonia:	Konecranes Oü	0	100
Finland:	Nosturiexpertit Oy	10	100
	Permeco Oy	113	100
	Suomen Teollisuusosa Oy	5,811	100
France:	KCI Holding France S.A.	11,461	100
	Konecranes (France) SAS	16,585	100
	MHPS Cranes France SAS	35,855	100
	Verlinde SAS	10,720	100
Germany:	Demag Cranes & Components GmbH	1,092,821	100
	Eurofactory GmbH	1,239	100
	Konecranes GmbH	482,300	100
	Konecranes Holding GmbH	315,262	100
	Konecranes Lifting Systems GmbH	804	100
	Konecranes Real Estate GmbH Co. & KG	33,652	94
	Konecranes Real Estate Verwaltungs GmbH	0	100
	Kranservice Rheinberg GmbH	8,360	100
	Noell Crane Systems GmbH	15,680	100
	SWF Krantechnik GmbH	15,500	100
Greece:	Konecranes Hellas Lifting Equipment and Services S.A.	60	100
Hong Kong:	Konecranes Hong Kong Limited	0	100
Hungary:	Konecranes Kft.	889	100
	Konecranes Supply Hungary Kft.	3,899	100
India:	Konecranes Private Limited	31,786	100
	Voima Cranes & Components Pvt. Ltd.	63	100
Indonesia:	Pt. Konecranes	0	100
Italy:	Demag Cranes & Components S.r.l.	13,997	100
	Donati Sollevamenti S.r.l.	2,561	100
	Konecranes S.r.l.	590	100
	MHPS Italia S.r.l.	0	100

Subsidiaries owned by the Group		Book value of shares	Group's share, %
Japan:	Konecranes Company, Ltd.	0	100
Latvia:	SIA Konecranes Latvija	2	100
Lithuania:	UAB Konecranes	139	100
Luxembourg:	Materials Handling International S.A.	300	100
Malaysia:	Konecranes Sdn. Bhd.	709	100
Mexico:	Konecranes Mexico S.A. de C.V.	2,188	100
Morocco:	Port Equipment Maghreb S.a.r.l.	50	100
The Netherlands:	Konecranes B.V.	4,201	100
	Konecranes Holding B.V.	313,851	100
	Port Software Solutions B.V.	43,080	69.78
	TBA B.V.	3,678	69.78
Norway:	Konecranes AS	5,170	100
	Konecranes Norway Holding AS	3,588	100
Peru:	Konecranes Peru S.R.L.	0	100
Philippines:	Konecranes Philippines Inc.	461	100
Poland:	Konecranes and Demag Sp. z o.o.	1,359	100
Portugal:	Konecranes and Demag, Lda.	3,293	100
Qatar:	Arabian Cranes & Services - Qatar LLC*)	0	49
Romania:	S.C. Konecranes S.A.	98	100
	S.C. TBA RO S.r.l.	10	69.78
Russia:	AO "Konecranes Demag Rus"	160	100
Saudi Arabia:	Saudi Cranes & Steel Works Factory Co. Ltd.	12,850	100
Singapore:	KCI Cranes Holding (Singapore) Pte. Ltd.	49,117	100
	Konecranes Pte. Ltd.	1,991	100
	SWF Krantechnik Pte. Ltd.	160	100
Slovakia:	Konecranes Slovakia s.r.o.	200	100
Slovenia:	Konecranes, d.o.o.	200	100
South Africa:	Konecranes (Proprietary) Ltd.	3,356	100
	MHPS (Pty) Ltd	79	100
	Port Equipment Southern Africa (Pty) Ltd	1,655	100
Spain:	Konecranes and Demag Ibérica S.L.U.	31,799	100
Sweden:	Konecranes AB	1,333	100
	Konecranes Lifttrucks AB	22,659	100
	Konecranes Sweden Holding AB	1,682	100
	Ulvaryd Fastighets AB	1,267	100

Subsidiaries owned by the Group		Book value of shares	Group's share, %
Switzerland:	Konecranes and Demag AG	17,205	100
Thailand:	Konecranes (Thailand) Ltd.*)	108	49
Turkey:	Konecranes Ticaret Ve Servis Limited Sirketi	93	100
Ukraine:	Konecranes Ukraine PJSC	2,049	100
	PJSC "Zaporozhje Kran Holding"	655	100
	PJSC "Zaporozhcran"	178	90.43
United Arab Emirates:	Demag Cranes & Components Holding Ltd.	0	100
	Demag Cranes & Components (Middle East) FZE	13,981	100
	Konecranes Middle East FZE	1,774	100
United Kingdom:	Demag Cranes and Components Guarantee Ltd.	0	100
	Demag Cranes & Components Holdings Ltd.	1,111	100
	KCI Holding UK Ltd.	13,656	100
	Konecranes Demag UK Limited	6,333	100
	Lloyds Konecranes Pension Trustees Ltd.	0	100
	Morris Material Handling Ltd.	5,995	100
	TBA Doncaster Limited	1,030	53.03
	TBA Leicester Limited	9,481	62.80
	UKMHPS Limited	50,695	100
U.S.A.	Demag Cranes & Components Corp.	59,167	100
	KCI Holding USA Inc.	53,901	100
	Konecranes, Inc.	43,825	100
	Konecranes Nuclear Equipment & Services, LLC	0	100
	MMH Americas, Inc.	0	100
	MMH Holdings, Inc.	0	100
	Morris Material Handling, Inc.	62,391	100
	PHMH Holding Company	0	100
	R&M Materials Handling, Inc.	7,162	100
Vietnam:	Konecranes Vietnam Co., Ltd	0	100

*) Konecranes Group has the majority representation on the entity's board of directors and approves all major operational decisions and thereby Konecranes consolidates them in the Group's financial statements.

Other shares and joint operations		Assets value	Group's share, %
Estonia:	AS Konesko	4,448	49.46
Finland:	Kiinteistöosakeyhtiö Kuikantorppa	261	50

Investments accounted for using the equity method		Assets value	Group's share, %
China:	Guangzhou Technocranes Company, Ltd.	612	25
	Jiangyin Dingli Shengshai High Tech Industrial Crane Company, Ltd.	297	30
	Shanghai High Tech Industrial Crane Company, Ltd.	2,088	28
Finland:	Fantuzzi Noell Baltic Oy	737	25
France:	Boutonnier Adt Levage S.A.	324	25
	Levelec S.A.	213	20
	Manulec S.A.	192	25
	Manelec S.A.R.L.	68	25
	S.E.R.E. Maintenance S.A.	171	25
Germany:	AQZ Ausbildungs- und Qualifizierungszentrum Düsseldorf GmbH	0	30
Singapore:	MHE-Demag Pte. Ltd.	64,822	50
Switzerland:	Demag IP Holdings GmbH	50	50
United Arab Emirates:	Crane Industrial Services LLC	1,304	49

Available-for-sale investments		Book value of shares	Group's share, %
Finland:	East Office of Finnish Industries Oy	50	5.26
	Dimecc Oy	120	5.69
	Levator Oy	0	19
	Vierumäen Kuntorinne Oy	345	3.3
France:	Heripret Holding SAS	53	19
Malaysia:	Kone Products & Engineering Sdn. Bhd.	13	10
Venezuela:	Gruas Konecranes CA	20	10
Others:		224	
Total		**825**	

Parent company statement of income – FAS

(1,000 EUR)		Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Note:			
	Other operating income	66	0
2	Depreciation and impairments	-125	-54
3	Other operating expenses	-16,591	-32,125
	Operating profit	**-16,650**	**-32,179**
4	Financial income and expenses	83,124	61,542
	Income before appropriations and taxes	**66,474**	**29,362**
5	Appropriations	65,588	42,983
6	Income taxes	-12,085	-7,183
	Net income	**119,976**	**65,163**

Parent company balance sheet – FAS

(1,000 EUR)		31 Dec 2018	31 Dec 2017
Note:			
	ASSETS		
	NON-CURRENT ASSETS		
	Tangible assets		
7	Machinery and equipment	661	302
	Advance payments	0	229
		661	**531**
8	**Investments**		
	Investments in Group companies	153,040	153,040
	Other shares and similar rights of ownership	170	170
		153,210	**153,210**
	Total non-current assets	**153,871**	**153,741**
	CURRENT ASSETS		
	Long-term receivables		
	Loans receivable from Group companies	1,007,224	1,012,298
		1,007,224	**1,012,298**
	Short-term receivables		
	Accounts receivable	2	1
	Amounts owed by Group companies		
	Accounts receivable	3,223	4,072
10	Deferred assets	134,439	97,687
	Other receivables	625	156
10	Deferred assets	404	71
		138,693	**101,987**
	Cash in hand and at banks	**3**	**3**
	Total current assets	**1,145,920**	**1,114,288**
	TOTAL ASSETS	**1,299,791**	**1,268,030**

(1,000 EUR)		31 Dec 2018	31 Dec 2017
Note:			
	SHAREHOLDERS' EQUITY AND LIABILITIES		
11	**EQUITY**		
	Share capital	30,073	30,073
	Share premium account	39,307	39,307
	Paid in capital	768,753	767,074
	Retained earnings	78,479	107,905
	Net income for the period	119,976	65,163
		1,036,587	**1,009,521**
	APPROPRIATIONS		
	Depreciation difference	**127**	**74**
	LIABILITIES		
	Non-current liabilities		
12	Bond	248,781	248,432
		248,781	**248,432**
	Provisions	**948**	**67**
	Current liabilities		
	Accounts payable	3,172	245
	Liabilities owed to Group companies		
	Accounts payable	636	373
13	Accruals	8	2
	Other short-term liabilities	80	87
13	Accruals	9,452	9,228
		13,348	**9,936**
	Total liabilities	**263,077**	**258,435**
	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**1,299,791**	**1,268,030**

Parent company cash flow – FAS

(1,000 EUR)	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Cash flow from operating activities		
Operating income	**-16,650**	**-32,179**
Adjustments to operating profit		
Depreciation and impairments	125	54
Group contributions from subsidiaries	43,000	60,500
Operating income before changes in net working capital	**26,475**	**28,375**
Change in interest-free short-term receivables	-2,706	2,143
Change in interest-free short-term liabilities	-2,533	-16,335
Change in net working capital	**-5,239**	**-14,192**
Cash flow from operations before financing items and taxes	**21,236**	**14,182**
Interest received	29,469	7,634
Interest paid	-7	-4
Other financial income and expenses	-8	-191
Income taxes paid	-9,600	-6,787
Financing items and taxes	**19,855**	**652**
NET CASH FROM OPERATING ACTIVITIES	**41,091**	**14,835**
Cash flow from investing activities		
Capital expenditure and advance payments to tangible assets	-488	-229
Capital expenditure and advance payments to intangible assets	229	0
Proceeds from sale of fixed assets	4	6
Dividends received	47,000	10,520
NET CASH USED IN INVESTING ACTIVITIES	**46,745**	**10,296**
Cash flow before financing activities	**87,835**	**25,131**

(1,000 EUR)	Jan 1–Dec 31 2018	Jan 1–Dec 31 2017
Cash flow from financing activities		
Proceeds from share based payments and share issues	1,679	698,383
Repayments of long-term receivables	5,074	-889,603
Repayments of long-term liabilities	0	248,432
Dividends paid	-94,588	-82,343
NET CASH USED IN FINANCING ACTIVITIES	**-87,835**	**-25,131**
CHANGE OF CASH AND CASH EQUIVALENTS	**0**	**0**
Cash and cash equivalents at beginning of period	3	3
Cash and cash equivalents at end of period	3	3
CHANGE OF CASH AND CASH EQUIVALENTS	**0**	**0**

Notes to the parent company's financial statement

1. Accounting principles

The financial statements of the company have been prepared in euro and in accordance with accounting principles generally accepted in Finland.

Statement of income
(1,000,000 EUR)

2. Depreciation and impairments

	2018	2017
Machinery and equipment	0.1	0.1
Total	**0.1**	**0.1**

3. Other operating expenses and personnel

Costs and expenses in the Statement of Income were as follows:

	2018	2017
Wages and salaries	3.5	6.5
Pension costs	0.3	0.6
Other personnel expenses	0.1	0.2
Other operating expenses	0.2	0.8
Total	**4.1**	**8.0**

Wages and salaries in accordance with the Statement of Income.

	2018	2017
Remuneration to Board	0.7	0.8
Other wages and salaries	2.7	5.6
Total	**3.5**	**6.5**
The average number of personnel	**5**	**5**
Auditors fees		
Audit	0.6	0.9
Other services	0.1	0.1
Total	**0.7**	**1.0**

4. Financial income and expenses

	2018	2017
Financial income from long-term investments:		
Dividend income from Group companies	72.0	35.5
Dividend income total	72.0	35.5
Interest income from long-term receivables:		
From Group companies	15.8	21.5
Other interest income	0.0	7.2
Interest income from long-term receivables total	15.8	28.7
Financial income from long-term investments total	**87.8**	**64.2**
Interest and other financial income	0.1	0.2
Interest and other financial income total	**0.1**	**0.2**
Interest expenses and other financial expenses:		
Other financial expenses	4.8	2.9
Interest expenses and other financial expenses total	**4.8**	**2.9**
Financial income and expenses total	**83.1**	**61.5**

5. Appropriations

	2018	2017
Difference between planned and untaxed depreciations	-0.1	0.0
Group contributions received from subsidiaries	65.6	43.0
Total	**65.6**	**43.0**

6. Income taxes

	2018	2017
Taxes on appropriations	13.1	8.6
Taxes on ordinary operations	-1.0	-1.4
Total	**12.1**	**7.2**

Balance sheet

7. Machinery and equipment

	2018	2017
Acquisition costs as of January 1	0.4	0.5
Increase	0.5	0.0
Acquisition costs as of December 31	0.9	0.4
Accumulated depreciation January 1	-0.1	-0.1
Accumulated depreciation	-0.1	-0.1
Total as of December 31	**0.7**	**0.3**

8. Investments

	2018	2017
Acquisition costs as of January 1	153.2	153.2
Total as of December 31	**153.2**	**153.2**

Investments in Group companies

		2018	2017
	Domicile	**Book value**	**Book value**
Konecranes Finance Corp.	Hyvinkää	46.4	46.4
Konecranes Finland Corp.	Hyvinkää	4.2	4.2
Konecranes Global Corp.	Hyvinkää	102.4	102.4
Total		**153.0**	**153.0**

Other shares and similar rights of ownership

	2018	2017
East Office of Finnish Industries Oy	0.1	0.1
Dimecc Oy	0.1	0.1
Total	**0.2**	**0.2**

9. Treasury shares

	2018	2017
Number of shares as of January 1	165,761	4,521,333
Increase	7,000	0
Decrease	-67,358	-4,355,572
Number of shares as of December 31	**105,403**	**165,761**

10. Deferred assets

	2018	2017
Group contributions	65.6	43.0
Payments which will be realized during the next financial year	61.7	33.7
Interest	7.5	21.1
Total	**134.8**	**97.8**

11. Equity

	2018	2017
Share capital as of January 1	30.1	30.1
Share capital as of December 31	**30.1**	**30.1**
Share premium account January 1	39.3	39.3
Share premium account as of December 31	**39.3**	**39.3**
Paid in capital as of January 1	767.1	68.7
Increase	1.9	698.4
Decrease	-0.3	0.0
Paid in capital as of December 31	**768.8**	**767.1**
Retained earnings as of January 1	173.1	190.2
Dividend paid	-94.6	-82.3
Retained earnings as of December 31	**78.5**	**107.9**
Net income for the period	**120.0**	**65.2**
Shareholders' equity as of December 31	**1,036.6**	**1,009.5**

	2018	2017
Distributable equity		
Paid in capital as of December 31	768.8	767.1
Retained earnings as of December 31	78.5	107.9
Net income for the period	120.0	65.2
Total	**967.2**	**940.1**

12. Interest-bearing liabilities

	2018	2017
Bond	248.8	248.4
Total	**248.8**	**248.4**

13. Accruals

	2018	2017
Income taxes	5.0	2.5
Wages, salaries and personnel expenses	1.4	1.2
Other items	3.1	5.6
Total	**9.5**	**9.2**

14. Contingent liabilities and pledged assets

	2018	2017
For obligations of subsidiaries	1,056.7	1,018.8
Group guarantees		
Leasing liabilities		
Next year	0.5	0.6
Later on	1.6	2.4
Total	**2.1**	**3.0**

Leasing contracts mainly have a maturity of three years and they have no terms of redemption.

	2018	2017
Total by category		
Guarantees	1,056.7	1,018.8
Other liabilities	2.1	3.0
Total	**1,058.8**	**1,021.9**

15. Nominal and fair values of derivative financial instruments

	2018 Fair value	2018 Nominal value	2017 Fair value	2017 Nominal value
Foreign exchange forward contracts	0.0	0.7	0.0	3.9

Derivatives are used for currency rate hedging only.

The derivative financial instruments are recognized according to KPL 5:2a at fair value in the parent company financial statements and the company does not apply hedge accounting for these derivatives.

Board of Director’s proposal to the Annual General Meeting

The parent company’s non-restricted equity is EUR 967,207,780.36 of which the net income for the year is EUR 119,975,989.88.

The Group’s non-restricted equity is EUR 1,196,321,000.

According to the Finnish Companies Act, the distributable funds of the company are calculated based on the parent company’s non-restricted equity. For the purpose of determining the amount of the dividend the Board of Directors has assessed the liquidity of the parent company and the economic circumstances subsequent to the financial year-end.

Based on such assessments the Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.20 will be paid on each share and that the remaining non-restricted equity is retained in shareholders’ equity.

Espoo, February 6, 2019

Christoph Vitzthum
Chairman of the Board

Ole Johansson
Board member

Janina Kugel
Board member

Bertel Langenskiöld
Board member

Ulf Liljedahl
Board member

Per Vegard Nerseth
Board member

Anders Nielsen
Board member

Päivi Rekonen
Board member

Panu Routila
President and CEO

Auditor's report

To the Annual General Meeting of Konecranes Plc

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Konecranes plc (business identity code 0942718-2) for the year ended 31 December, 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5 (1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 7.1 to the consolidated financial statements and note 4 to the parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition of long-term contracts and related provisions Refer to note 2.2 Use of estimates and judgments, note 2.3 Summary of significant accounting policies, note 5, note 6 and note 24.	
In accordance with its accounting principles, Konecranes applies the percentage of completion (PoC) method (performance obligations satisfied over time) for recognizing revenue from long-term crane projects. The percentage of completion is based on the cost-to-cost method. The percentage of completion method of accounting involves the use of significant management assumptions, estimates and projections, principally relating to future material, labor and project-related overhead costs and the estimated stage of completion. In year 2018, approximately 12 % percent of the sales of 3.2 billion euro were recognized under the PoC method. Revenue recognition of long-term contracts is a key audit matter and a significant risk of misstatement as defined by EU Regulation No 537/2014, point (c) of Article 10(2).	Our audit procedures to address the risk of material misstatement in respect of the long-term contracts included among others: • Assessing the Group's accounting policies over revenue recognition of long-term contracts; • Gaining an understanding of the PoC revenue recognition process; • Examination of the project documentation and testing the PoC calculations and inputs of estimates in the calculations and comparing the estimates to actuals; • Analytical procedures; • Assessing significant judgments made by management based on an examination of the associated project documentation and discussion on the status of projects under construction with finance and project managers of the Company; and • Assessing the Group's disclosures in respect of revenue recognition.
Konecranes makes several types of provisions related to risks associated with long-term project contracts and PoC accounting. These PoC related provisions require high level of management judgment and are a key audit matter due to that reason.	We have designed our audit procedures to be responsive to this specific audit area and our procedures included among others: • Gaining an understanding of the PoC related provisions process; • Testing the provision calculations and the inputs of estimates in these calculations and comparing estimates to actuals; and • Performing inquiries with management with regards to any significant events or legal matters that could affect the provisions.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Refer to note 2.3 Summary of significant accounting policies and note 5.	
According to the Group's accounting policies revenue is recognized at an amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer. Goods and services are generally considered to be transferred when the customer obtains control. The terms and conditions of sales contracts vary by market and, in addition, the local management might feel pressure to achieve the revenue targets set. Revenue recognition is a key audit matter and a significant risk of material misstatement as defines by EU Regulation No 537/2014, point (c) of Article 10(2) due to the significant risk relating to an incorrect timing of recognition of revenue.	Our audit procedures to address the risk of material misstatement in respect of correct timing of revenue recognition included among others: • Analytical procedures; • Assessing the Group's accounting policies over revenue recognition compared to applicable accounting standards; • Assessing the revenue recognition process and -methodologies and testing controls; • Testing revenue with substantive analytical procedures and by testing sales transactions; • Assessing the Group's disclosures in respect of revenues.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of goodwill	
Refer to note 2.2 Use of estimates and judgments, note 2.3 Summary of significant accounting policies and note 13.	
The value of goodwill at the date of the financial statements amounted to 906.1 million euro representing 25 % of total assets and 71 % of equity (2017: 905.3 million euro, 25% of the total assets and 71 % of equity). Valuation of goodwill is tested annually through goodwill impairment test. Konecranes has allocated goodwill to cash generating units (CGUs) which is the level for goodwill impairment test. The recoverable amount of a cash generating unit is based on value in use calculations, the outcome of which could vary significantly if different assumptions were applied. There are a number of assumptions used to determine the value in use of the cash generating units, including revenue growth, development of fixed costs, the operating margin and the discount rate applied. Changes in the above-mentioned assumptions may result in an impairment of goodwill. The annual impairment test is a key audit matter because • The assessment process is complex and is based on numerous judgmental estimates; • It is based on assumptions relating to market or economic conditions; and • Of the significance of the goodwill to the balance sheet total. Valuation of goodwill is a significant risk of misstatement as defined by EU Regulation No 537/2014, point (c) of Article 10 (2).	Our audit procedures included, among others, involving our valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the discount rate. We specifically focused on the cash generating units for which reasonably possible changes in assumptions could cause the carrying value to exceed its recoverable amount. We also assessed the historical accuracy of managements' estimates. We assessed the Group's disclosures in note 13 in the financial statements about the assumptions to which the outcome of the impairment tests were more sensitive.

Key Audit Matter	How our audit addressed the Key Audit Matter
Income taxes	
Refer to note 2.2 Use of estimates and judgments, note 2.3 Summary of significant accounting policies, note 11 and note 17.	
The Group operates in a number of jurisdictions around the world, with differing tax regimes, resulting in different subjective and complex interpretation of local tax laws and is therefore open to assessment from multiple tax authorities. In the normal course of business the Group makes judgments and estimates in relation to tax issues and exposures resulting in the recognition of other taxes. Income taxes is a key audit matter as the future actual outcome of the decisions concerning these tax exposures may result in material higher or lower amounts than accrual included in the financial statements.	As part of our audit procedures: • We included both local and international tax specialists to analyze and assess the assumptions used to determine tax positions and corroborating the assumptions with supporting evidence. • We tested the amounts recognized as current and deferred tax, including the assessment of judgmental tax positions. In this area our audit procedures included, among others, assessment of the impact of the Group's correspondence with relevant tax authorities and the evaluation of tax exposures. • In addition with respect to deferred tax assets we assessed management's assumptions to determine the probability that deferred tax assets recognized in the statement of financial position will be recovered through taxable income in future years, and available tax planning strategies. We assessed the Group's disclosures in notes 11 and 17 in the financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on March 8, 2006, and our appointment represents a total period of uninterrupted engagement of 13 years.

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Governance publication but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Governance publication is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions based on assignment of the Audit Committee

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the distributable equity shown in the balance sheet for the parent company is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki, February 6, 2019

Ernst & Young Oy
Authorized Public Accountant Firm

Kristina Sandin
Authorized Public Accountant

Shares and shareholders

According to the register of Konecranes Plc's shareholders kept by Euroclear Finland Oy, there were 24,201 (2017: 19,988) shareholders at the end of the 2018.

Largest shareholders according to the share register on December 31, 2018

		Number of shares and votes	% of shares and votes
1	HC Holding Oy Ab	7,901,238	10.0%
2	Solidium Oy	5,832,256	7.4%
3	Varma Mutual Pension Insurance Company	2,884,951	3.7%
4	Gustavson Stig and family*)	2,229,455	2.8%
5	Ilmarinen Mutual Pension Insurance Company	2,215,000	2.8%
6	OP Funds	1,217,569	1.5%
7	The Local Government Pensions Institution, KEVA	931,042	1.2%
8	Danske Capital Funds	635,413	0.8%
9	Holding Manutas Oy	600,000	0.8%
10	Samfundet Folkhälsan i Svenska Finland	535,600	0.7%
	Ten largest registered shareholders' total ownership	**24,982,524**	**31.7%**
	Nominee registered shares	37,574,133	47.6%
	Other shareholders	16,259,846	20.6%
	Shares held by Konecranes Plc	105,403	0.1%
	Total	**78,921,906**	**100.0%**

*) Konecranes Plc has on December 28, 2011 received information according to which the Chairman of the company's Board of Directors Stig Gustavson has donated all of his shares in Konecranes Plc to his near relatives retaining himself for life the voting rights and right to dividend attached to the donated shares. The donation encompasses in total 2,069,778 shares.

Shares and options owned by the members of the Board of Directors and of the Group Executive Board on December 31, 2018

	Change in shareholding in 2018	Number of shares owned	% of shares and votes
Board of Directors	4,104	32,419	0.0%
Group Executive Board	8,658	238,385	0.3%
Total	**12,762**	**270,804**	**0.3%**

Breakdown of share ownership by number or shares owned on December 31, 2018

Shares	Number of shareholders	% of shareholders	Number of shares and votes	% of shares and votes
1–100	12,192	50.4%	580,538	0.7%
101–1,000	10,353	42.8%	3,477,073	4.4%
1,001–10,000	1,459	6.0%	3,993,019	5.1%
10,001–100,000	154	0.6%	4,636,361	5.9%
100,001–1,000,000	26	0.1%	7,757,559	9.8%
Over 1,000,001	6	0.0%	20,903,223	26.5%
Registered shareholders total	**24,190**	**100.0%**	**41,347,773**	**52.4%**
Nominee registered shares	11	0.0%	37,574,133	47.6%
Total	**24,201**	**100.0%**	**78,921,906**	**100.0%**

Breakdown of share ownership by shareholder category on December 31, 2018

	% of shares and votes
Public sector organizations	16.6%
Households	12.5%
Private companies	12.3%
Financial and insurance institutions	5.8%
Non-profit organizations	4.2%
Foreigners	0.9%
Nominee registered shares	47.6%
Total	**100.0%**

Source: Euroclear Finland Oy, December 31, 2018.

Konecranes is a world-leading group of Lifting Businesses™, serving a broad range of customers, including manufacturing and process industries, shipyards, ports and terminals. Konecranes provides productivity-enhancing lifting solutions as well as services for lifting equipment of all makes. The Group has 16,100 employees at 600 locations in 50 countries. Konecranes is listed on the Nasdaq Helsinki (symbol: KCR).

KONECRANES®
Lifting Businesses™

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